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Many persons provided help in collecting the survey data and other information in this report. They include: employees of commercial banks, the American Bankers Association, and life insurance companies, economists of the Federal Reserve System, State Directors and other employees of the Farmers Home Administration, presidents and other employees of the Federal Land Banks and the Federal Intermediate Credit Banks, employees of the Farm Credit Administration, the Extension Service, and officials of the credit corporations of farm machinery manufacturing companies.

The assistance of economists in the Economic Research Service was of much help in preparing the Type of Farm section as well as some other parts of this report:

Allen Baker
Cliff Carmen
Barbara Claffey
Sam Evans
Ed Glade
Verner Grise
Ron Gustafson
Ben Huang
Allen Schienbein
Leland Southard
Michael Stellmacher
Larry Van Meir

In This Issue

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The World Agricultural
Outlook Board
and Summary released
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Principal Contributors:
George R. Amols, Coordinator

Frances A. Burke
Ron L. Durst
Linda R. Farmer
Stephen C. Gabriel
Linwood A. Hoffman
James M. Hrubovcak
Wilson K. Kaiser
Jerome M. Stam

National Economics Division
Economic Research Service
U.S. Department of Agriculture
Washington, D.C. 20250

Summary

Financial conditions in the farm sector continued to deteriorate in 1982. Major contributing factors were sluggish foreign and domestic economic conditions, large world crop supplies, high interest rates, and the cumulative impact of 3 years of low farm income. The number of farmers in financial distress increased, although it remains very low. Farmers experienced a decline in borrowing capacity because of a 3.9-percent drop in nominal farm equity. Since the decline in borrowing capacity came at a time when receipts were very tight, farmers were pressed to reduce input purchases and capital expenditures and to take other actions to improve their

cash flow. The farm sector debt-to-asset ratio is estimated to have increased from 18.5 at the start of 1982 to a record 20.1 percent on January 1, 1983.

Current prospects for significant improvement in farm financial conditions in 1983 are not favorable; returns to agriculture will likely remain relatively low. Production expenses may grow by only 2 to 3 percent, but total cash receipts are not currently expected to increase significantly. Lower feed costs and modest price improvement are expected to enhance profits for livestock and poultry producers. However, crop receipts are likely to decline because of projected large supplies and sluggish demand. Cash flow difficulties will persist; again, those farmers with high debt loads and no alternative sources of income will be hardest hit.

The nominal value of farm assets is likely to decline about 2 percent in 1982, the first such decline since 1953. Real estate values fell for the second year in a row; the forecast 4.2-percent decline is the result of reduced farm income expectations and a generally sluggish economy. Real estate values are forecast to remain unchanged next year.

Gross investment in the farm sector for 1982 is estimated to be $21.1 billion, down $2.9 billion from 1981. High interest rates and low farm income have forced many farmers to postpone capital improvements and the purchase of machinery and equipment. A slight increase in farm investment is expected during 1983, possibly to $21.7 billion if the general economy improves and average interest rates are lower.

Total farm debt rose only about 6.6 percent in 1982 and may rise about 5 percent in 1983. This compares with a growth rate of about 13 percent in the seventies. All other real estate lenders are expected to have lost market share to the Federal land banks (FLBs) during 1982. Although the FLBs' loans outstanding grew at only half the rate of the previous 3 years, their share rose from 41.3 percent to a forecast 43.5 percent. In the non-real estate loan market, the Commodity Credit Corporation (CCC) gained market share at the expense of all other non-real estate lenders. CCC debt outstanding rose nearly 70 percent in 1982, resulting in a market share of about 13 percent as of January 1, 1983.

Many provisions of the Economic Recovery Tax Act of 1981 became effective in 1982 and will produce significant reductions in farm tax liabilities. For 1983 and later, the Tax Equity and Fiscal Responsibility Act of 1982 will mean a slight reduction in capital cost recovery deductions but a continuation of low-interest leasing for farmers.

BALANCE SHEET OF THE FARMING SECTOR

Farm assets, including farm households, are expected to total $1,070 billion on January 1, 1983, down 2 percent from a year earlier. This is the first decline in nominal value of the farm sector's assets since January 1, 1954. Farm debt is estimated to have increased 6.6 percent from January 1, 1982, to total $215 billion, causing farmers' equity to fall to $855 billion, a decrease of about 4 percent from a year earlier. The drop in farmers' equity is the largest percentage decrease since balance sheet statistics were first collected in 1940. Equity per farm is expected to be down from $371,000 to $359,000 on January 1, 1983.

Farm sector real equity is expected to be down about 9 percent for 1982 (using a projected inflation rate of about 5.3 percent for December 1981-December 1982), as real asset values decrease and real debt shows a small increase. Changes in farm equity come from two sources—unrealized capital gains or losses, and changes in retained earnings from farm and nonfarm sources. Capital losses occurred for the farm sector in 1982 as decreases in farm real estate values outweighed any capital gains in non-real estate physical assets.

The expected 2-percent decrease in asset values and the 6.6-percent increase in debt will cause the debt-to-asset ratio to rise from 18.5 percent on January 1, 1982, to 20.1 percent on January 1, 1983, the highest since 1940. The sector's debt-to-equity ratio, which also measures the extent of indebtedness, is expected to be up 2.5 percentage points to 25.2 percent on January 1, 1983, indicating that farmers will generally have more difficulty in obtaining loans.

The value of farm real estate is projected to decrease 4 percent, to total $789 billion on January 1, 1983, the lowest value since January 1, 1980. This is the second consecutive year that farm real estate values have decreased.

Farm sector non-real estate assets are expected to be up 4.6 percent for the year, to $233 billion on January 1, 1983. Livestock inventory is expected to show the largest increase—8.7 percent—since livestock prices were up in 1982 and feed prices declined. The value of farm machinery inventory is expected to be up 3.5 percent to $115 billion. Farm machinery sales have been slow again during 1982. The value of crop inventory is expected to be up $1 billion to $38 billion on January 1, 1983. Low crop prices are holding down the value of crop inventory, but the quantity of crops in inventory has increased. The value of household equipment and furnishings is expected to be up 3.5 percent to $22.4 billion.

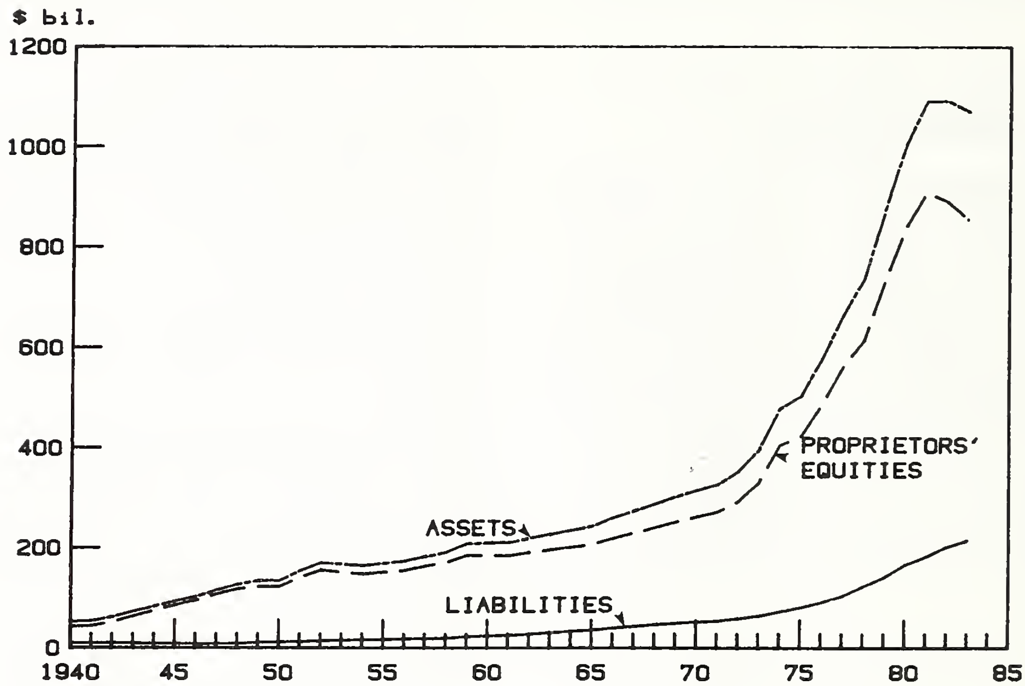
Financial assets, which consist of farmers' currency, demand deposits, time deposits, savings bonds, and the

Table 1—Balance sheet of the farming sector, 1976-1983[a]

Items/year (Jan. 1)	1976	1977	1978	1979	1980	1981	1982[b]	1983[c]	Percent Change 1982-83
	Billion dollars								
Assets									
Physical assets:									
Real estate	418.1	496.4	554.7	655.0	755.9	830.0	823.8	789.1	-4.2
Non-real estate									
Livestock and poultry	29.4	29.0	31.9	51.3	61.4	60.8	53.6	58.3	8.7
Machinery and motor vehicles	64.0	71.0	77.0	85.1	96.7	102.8	111.4	115.3	3.5
Crops stored on and off-farm	21.3	22.1	24.8	28.0	33.5	35.9	36.5	37.5	2.7
Household equipment and furnishings	11.7	12.1	13.8	16.0	17.2	19.4	21.7	22.4	3.5
Financial assets:									
Deposits and currency	14.5	14.8	15.2	15.5	15.9	16.2	16.8	17.3	3.0
Savings Bonds	3.9	3.8	3.9	4.2	4.0	3.8	3.6	3.5	-3.1
Investments in cooperatives	13.4	14.9	15.2	18.3	20.2	22.2	24.4	26.6	9.2
Total Assets[d]	576.3	664.2	736.3	873.4	1,004.8	1,091.0	1,091.8	1,070.0	-2.0
Claims									
Liabilities:									
Real estate debt	49.6	55.2	63.3	71.4	85.4	95.5	105.6	110.0	4.2
Non-real estate debt to:									
CCC	0.4	1.0	4.5	5.7	5.1	5.0	8.0	13.5	69.5
Others	41.6	47.7	54.9	63.7	75.3	81.5	88.1	91.5	3.8
Total liabilities	91.5	103.9	122.7	140.8	165.8	182.0	201.7	215.0	6.6
Proprietors' equity	484.8	560.3	613.6	732.6	839.0	909.0	890.1	855.0	-3.9
Total claims	576.3	664.2	736.3	873.4	1,004.8	1,091.0	1,091.8	1,070.0	-2.0
Debt to asset ratio	15.9	15.6	16.7	16.1	16.5	16.7	18.5	20.1	8.6

[a]Includes farm households. [b]1982 total assets preliminary. [c]Preliminary. [d]Totals may not add due to rounding.

Fig. 1. - Balance Sheet of the Farming Sector



Data as of January 1 each year. Data for 50 states beginning with 1960. 1983 preliminary.

net worth of farmers' cooperatives, are expected to total $47 billion on January 1, 1983, up about 6 percent from the previous year. The net worth of farmers' cooperatives accounts for most of the increase. Currency and deposits are expected to increase 3 percent while savings bonds drop about 3 percent.

Farm real estate loans outstanding are expected to be up over 4 percent from a year earlier despite the expected 4-percent drop in farm real estate values. However, the increase in real estate debt was the smallest increase during the period 1970 to 1982, when annual increases averaged 11 percent.

Farmers' non-real estate debt is expected to be up about 9 percent during 1982, more than the projected increase in non-real estate assets. Commodity Credit Corporation loans are expected to show the largest percentage increase of all non-real estate lenders, 69.5 percent, due to the second consecutive year of large crops, weak demand, and low crop prices.

Farmland Values

Farmland values in the United States declined an average of 1 percent from February 1981 to April 1982. Recent Federal Reserve Bank (FRB) surveys indicate that the decline has continued through October 1, with survey respondents remaining pessimistic about future land value changes. These declines are in sharp contrast to the average annual increase of 13 percent in the 1970's and the 9-percent climb in 1980.

Low farm incomes in 1980 and 1981 reduced farmers' ability to purchase additional farmland. Net farm income (after inventory adjustment) declined from $32.3 billion in 1979 to $25.1 billion in 1981 and is expected to decline to about $19 billion in 1982.

The recent declines in net farm income may have affected farmers' expectations about future long-term growth in real (inflation-adjusted) returns from farmland investments. Since 1950, the real earnings of farm assets have grown an average of 4 percent a year. Past farmland values reflected the expectation that this growth rate would continue. With the recent declines in farm income, farmers' expectations about earnings growth may have shifted downward. These expectations have reduced the demand for farmland by both farmers and nonfarm investors.

High mortgage interest rates have also contributed to the decline in land values. Interest rates at Federal land banks have increased an average of 1 percentage point a year since 1978, from 8.3 percent to the current 12.3. The FLB rate could decline slightly in 1983, but not enough to add much strength to land values.

High interest rates are having a similar impact on the markets for residential land and housing. In 1981, the 1-percent decline in farmland values was more than matched by a 2-percent decline in the value of residential land.[1] The price index for new one-family houses increased by only 6 percent, about 2 percentage points less than the increase in the Consumer Price Index.[2]

[1] Homer Hoyt Institute residential land price index. Changes are for February of the given year to February of the following year, except for 1981, which is February 1981 to December 1981.

[2] Census Bureau price index for new single-family homes. Changes are for the first quarter of the given year to the first quarter of the following year.

The similarity in price trends in all three markets implies that interest rates and the performance of the general economy are important factors affecting farmland values.

Lower expected rates of inflation and lower income tax rates decrease the return on land and long-term assets and raise the return on short-term investments. Investors may now be shifting away from land to short-term investments.

The rate of farm transfers has slowed, down from 3 percent of all farmland in the 1970's to less than 2.5 percent in 1980 and 1981, and it appears that there has been a further decrease this year. Those farmers who have the ability to purchase farmland are waiting either for a brighter outlook for the farm economy or until land prices decline further before aggressively entering the farmland market. Landowners are reluctant to sell at prices that are below those of a year or 2 ago. Farm foreclosures are up nationwide and voluntary sales are down. However, most private-sector lenders indicate that the situation has not reached a crisis. Agricultural lenders have pointed out that, while 1982 has been a difficult year for farmers, they have not reported widespread delinquencies and foreclosures.

The Corn Belt continues to show the largest declines in land values, while the Southern Plains and Pacific regions are showing moderate increases. A recent survey of more than 500 bankers in the Chicago Federal Reserve District showed the value of good farmland down approximately 8 percent from April 1, 1982, to October 1, 1982.[3] The survey respondents were pessimistic about the outlook for farmland values. Sixty-seven percent expected land values to decline during the final quarter of 1982, while 32 percent expected farmland values to stabilize. A survey by the Dallas Federal Reserve Bank showed the value of dry cropland increased by about 7 percent from April 1 until October 1, while the values of irrigated cropland and ranchland declined by about 3 and 1 percent, respectively, over the same 6-month period.[4] A Kansas City Federal Reserve Bank survey showed that from June 1 to November 1, 1982, those same three categories of land each dropped in value by approximately 6 percent.[5]

FARM FINANCIAL CONDITIONS

Major Factors Causing Economic Stress

In the past, farm income has dropped and real farm equity has occasionally turned down for a year, but not in recent history has the sector experienced such an extended period of uniformly adverse financial conditions. Farmers have been faced with three consecutive years of low farm income and declining real equity. Interest expenses have grown to about 15 percent of total production expenses, up from 7 percent in 1973. These three developments explain why many highly leveraged farm operators are in a severe cash flow situation and are financially vulnerable.

One of the principal effects of the drop in real farm equity (wealth) has been a very rapid decline in farmers' borrowing capacity. This has come at a time when farm income is low and farmers would like to be able to borrow against the equity they accumulated during the land boom of the seventies. Further, many farmers who have tried to cash in on past land value appreciation by selling their land have had trouble doing so in the current weak market.

The growth in interest expenses relative to farm income has made residual farm earnings (net income after paying interest) more volatile. Since interest expenses are a fixed obligation, the difficulty in making payments to creditors is amplified when farm income is low. This difficulty has increased with the growth in interest expenses. For example, in 1970 a 1-percent drop in farm income would have resulted in a 1.2-percent drop in income available for payment to creditors. In 1981, income available for payment to creditors would have declined by 1.8 percent due to a 1-percent drop in farm income.

Lenders suggest that between 5 and 10 percent of U.S. farmers are in a highly vulnerable financial situation due to excessive financial leverage. Farmers with a more moderate debt burden are also experiencing difficulty, but they are able to generate the cash needed to stay in business.

Surveys conducted by the American Bankers Association (ABA) and several Federal Reserve Banks indicate that a greater-than-normal percentage of farmers have gone out of business in recent months. Also, bankruptcy rates and the incidence of partial liquidations are up. The ABA reports that from June 1981 to June 1982 about 2.2 percent of the farmers in the United States went out of business, most through voluntary liquidation. The Minneapolis, Kansas City, and Dallas Federal Reserve Banks report that from April to September 1982 about 4.3, 4.1, and 9.1 percent, respectively, of the farmers in their districts went out of business. It should be emphasized, though, that all of these surveys report bankers' perceptions of what is happening in their area. Hence, the surveys are not precise measurements. It seems apparent, however, that bankers have perceived a deterioration in the financial condition of farmers from July (ABA survey) to September (Federal Reserve surveys).

Farmers are not expected to receive much relief in 1983. Large crop supplies and expectations of continued weak demand due to sluggish growth in domestic and foreign economies dampen prospects for improved farm income. Interest rates will be lower, on average, than in 1982. However, they will remain historically high when adjusted for inflation. Farm equity will continue to drop in both real and nominal terms. Barring any unforeseen developments such as a world crop shortfall, one cannot expect much improvement in the farm economy until the general economy begins to recover.

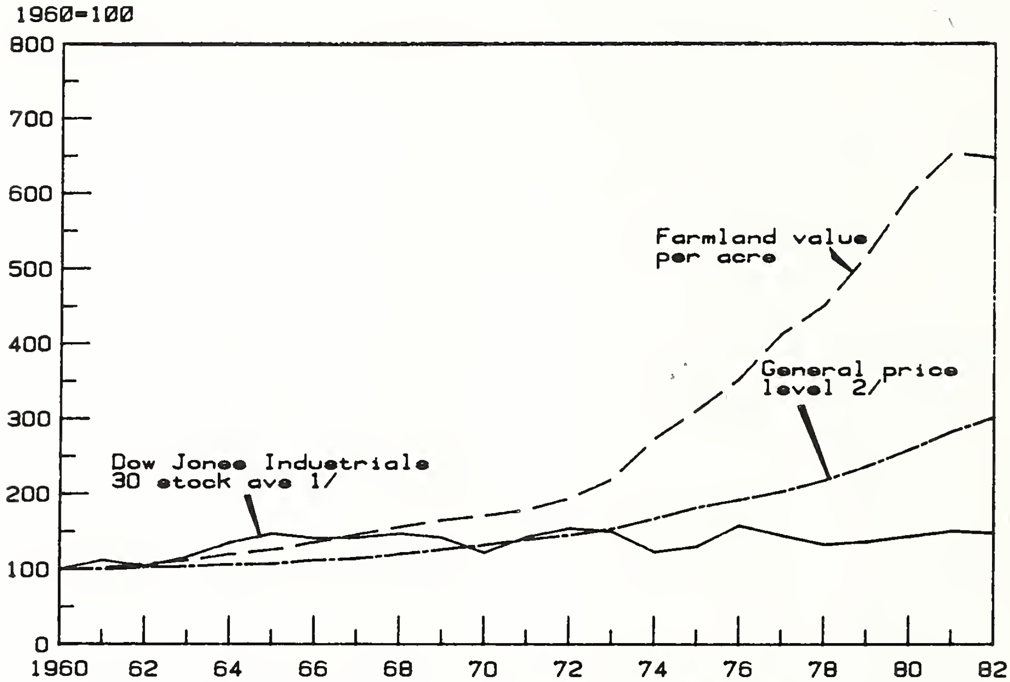
Farmers' responses to these unfavorable conditions should be similar to their actions in the last few years. They will reduce and postpone unnecessary capital expenditures and reduce the use of purchased inputs such as fertilizer and other chemicals. We can expect the growth in farm debt to continue to be slow in spite of an ample supply of credit from commercial lenders.

[3]The Chicago Federal Reserve District includes Iowa and parts of Illinois, Indiana, Michigan, and Wisconsin.

[4]The Dallas Federal Reserve District includes Texas and parts of Louisiana, Oklahoma, and New Mexico.

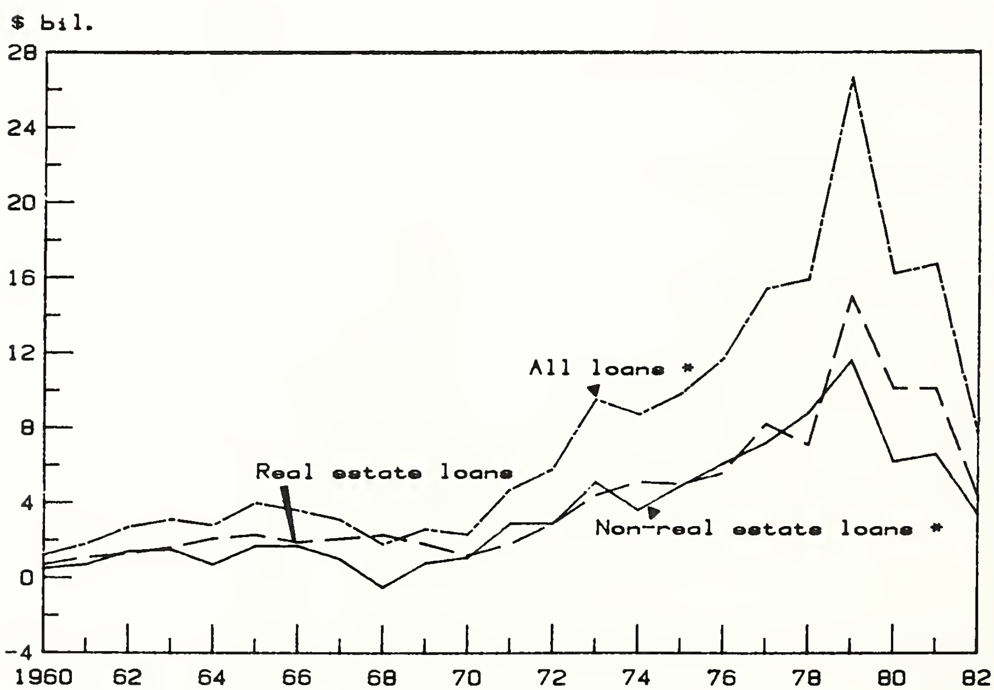
[5]The Kansas City Federal Reserve District includes Colorado, Kansas, Nebraska, Wyoming, and parts of Missouri and Oklahoma.

Figure 2. Farmland Value Per Acre Compared with Dow Jones Industrial Stock Average and The General Price Level



1/ Jan. to Sept. for 1982. 2/ Three quarter average for 1982.

Figure 3. Annual Change in Farm Debt



1982 Preliminary. * Excluding CCC Loans.

Table 2—Total farm debt 1971-1983[ab]

Year	Real estate debt	Non-real estate debt: Excl. CCC price support and storage loans	Non-real estate debt: CCC price support and storage loans	Non-real estate debt: Incl. CCC price support and storage loans	Total debt: Excl. CCC loans	Total debt: Incl. CCC loans
	Million dollars outstanding Jan. 1					
1971	30,346	22,262	1,876	24,138	52,608	54,484
1972	32,192	25,114	2,262	27,376	57,306	59,568
1973	35,094	27,964	1,793	29,757	63,058	64,851
1974	39,527	33,069	750	33,819	72,596	73,346
1975	44,637	36,687	319	37,006	81,324	81,643
1976	49,603	41,552	375	41,927	91,155	91,530
1977	55,157	47,687	1,040	48,727	102,844	103,884
1978	63,307	54,896	4,540	59,436	118,203	122,743
1979	71,413	63,735	5,666	69,401	135,148	140,814
1980	85,421	75,312	5,070	80,382	160,733	165,803
1981	95,513	81,465	4,978	86,443	176,978	181,956
1982	105,565	88,107	8,008	96,115	193,672	201,680
1983	109,990	91,458	13,573	105,031	201,448	215,021
	Percent change in year					
1971	6.1	12.8	20.6	13.4	8.9	9.3
1972	9.0	11.3	-20.7	8.7	10.0	8.9
1973	12.6	18.3	-58.2	13.7	15.1	13.1
1974	12.9	10.9	-57.5	9.4	12.0	11.3
1975	11.1	13.3	17.6	13.3	12.1	12.1
1976	11.2	14.8	177.0	16.2	12.8	13.5
1977	14.8	15.1	337.0	22.0	14.9	18.2
1978	12.8	16.1	24.8	16.8	14.3	14.7
1979	19.6	18.2	-10.5	15.8	18.9	17.7
1980	11.8	8.2	-1.8	7.5	10.1	9.7
1981	10.5	8.2	60.9	11.2	9.4	10.8
1982	4.2	3.8	69.5	9.3	4.0	6.6
	Percentage distribution of debt outstanding Jan. 1					
1971	55.7	40.9	3.4	44.3	96.6	100.0
1972	54.0	42.2	3.8	46.0	96.2	100.0
1973	54.1	43.1	2.8	45.9	97.2	100.0
1974	53.9	45.1	1.0	46.1	99.0	100.0
1975	54.7	44.9	.4	45.3	99.6	100.0
1976	54.2	45.4	.4	45.8	99.6	100.0
1977	53.1	45.9	1.0	46.9	99.0	100.0
1978	51.6	44.7	3.7	48.4	96.3	100.0
1979	50.7	45.3	4.0	49.3	96.0	100.0
1980	51.5	45.4	3.1	48.5	96.9	100.0
1981	52.5	44.8	2.7	47.5	97.3	100.0
1982	52.3	43.7	4.0	47.7	96.0	100.0
1983	51.2	42.5	6.3	48.8	93.7	100.0

[a]1983 Preliminary. [b]Figures for Production Credit Associations and Individuals and Others have been revised. See tables 3 and 4 for revisions and explanations.

Clearly, it will become more difficult for many farmers to qualify for credit. However, creditworthy farmers will have no problem obtaining financing.

Farm Real Estate Debt

Total farm real estate debt is forecast to have increased about 4 percent during 1982 (table 3). This would be the smallest percentage increase since 1970, when farm real estate debt rose 4 percent. From 1972 to 1980 the compound annual rate of growth in farm real estate debt was about 13 percent. Since that time, however, the growth has been curtailed, largely because of high real interest rates, dampened expectations regarding future farm real estate values, and farmers' inability to service additional debt. Total farm real estate debt is forecast to be about $110.0 billion on January 1, 1983.

Real estate debt held by Federal land banks is expected to have increased to about $47.8 billion. This 9.7-percent rise constitutes the greatest annual percentage increase of all the farm real estate lenders. However, FLBs have experienced a marked decline in their year-over-year growth in farm debt. Their 1982 growth was only about half that in each of the previous 3 years. Nevertheless, the FLBs still gained market share, since other real estate lenders either grew at even lower rates or declined in absolute terms. The market share of the FLBs is estimated to have reached about 43.5 percent as of January 1, 1983, up from 41.3 a year earlier.

Life insurance companies (LICs) are forecast to have somewhat less farm real estate debt outstanding at the end of 1982 than in 1981. A shortage of funds available for agricultural investment, reduced demand on the part of farmers, and competition from other farm real estate lenders all combined to restrict the volume of farm lending by LICs. Their market share is now expected to be about 12 percent at year's end.

Real estate debt held by commercial banks is forecast to be up about 1 percent this year to $8.5 billion. The market share of commercial banks has been declining since 1974, when it stood at about 14 percent. It contin-

Table 3—Real estate farm debt, 1971-1983[a]

Year	Debt owed to reporting institutions: Federal land banks	Life insurance companies	All operating banks	Farmers Home Administration	Total	Individuals and others[b]	Total
	Million dollars outstanding Jan. 1						
1971	7,145	5,610	3,772	2,440	18,967	11,379	30,346
1972	7,880	5,564	4,219	2,618	20,281	11,911	32,192
1973	9,050	5,643	4,792	2,835	22,320	12,774	35,094
1974	10,901	5,965	5,458	3,013	25,337	14,190	39,527
1975	13,402	6,297	5,966	3,215	28,880	15,757	44,637
1976	15,950	6,726	6,296	3,369	32,341	17,262	49,603
1977	18,455	7,400	6,781	3,657	36,293	18,864	55,157
1978	21,391	8,819	7,780	3,982	41,972	21,335	63,307
1979	24,619	10,478	8,557	4,121	47,775	23,638	71,413
1980	29,642	12,165	8,623	7,111	57,541	27,880	85,421
1981	35,945	12,928	8,745	7,715	65,333	30,180	95,513
1982	43,564	13,100	8,387	8,744	73,795	31,770	105,565
1983	47,800	13,000	8,470	8,720	77,990	32,000	109,990
	Percent change in year						
1971	10.3	-.8	11.9	7.3	6.9	4.7	6.1
1972	14.8	1.4	13.6	8.3	10.1	7.2	9.0
1973	20.5	5.7	13.9	6.3	13.5	11.1	12.6
1974	22.9	5.6	9.3	6.7	14.0	11.0	12.9
1975	19.0	6.8	5.5	4.8	12.0	9.6	11.1
1976	15.7	10.0	7.7	8.5	12.2	9.3	11.2
1977	15.9	19.2	14.7	8.9	15.6	13.1	14.8
1978	15.1	18.8	10.0	3.5	13.8	10.8	12.8
1979	20.4	16.1	.8	72.6	20.4	17.9	19.6
1980	21.3	6.3	1.4	8.5	13.5	8.2	11.8
1981	21.2	1.3	-4.1	13.3	13.0	5.3	10.5
1982	9.7	-.8	1.0	-.3	5.7	.7	4.2
	Percentage distribution of debt outstanding Jan. 1						
1971	23.6	18.5	12.4	8.0	62.5	37.5	100.0
1972	24.5	17.3	13.1	8.1	63.0	37.0	100.0
1973	25.8	16.1	13.6	8.1	63.6	36.4	100.0
1974	27.6	15.1	13.8	7.6	64.1	35.9	100.0
1975	30.0	14.1	13.4	7.2	64.7	35.3	100.0
1976	32.1	13.6	12.7	6.8	65.2	34.8	100.0
1977	33.5	13.4	12.3	6.6	65.8	34.2	100.0
1978	33.8	13.9	12.3	6.3	66.3	33.7	100.0
1979	34.4	14.7	12.0	5.8	66.9	33.1	100.0
1980	34.7	14.3	10.1	8.3	67.4	32.6	100.0
1981	37.6	13.5	9.2	8.1	68.4	31.6	100.0
1982	41.3	12.4	7.9	8.3	69.9	30.1	100.0
1983	43.5	11.8	7.7	7.9	70.9	29.1	100.0

[a]1983 Preliminary. [b]1972-82 revised, based on 1979 Census of Agriculture, Farm Finance Survey.

ued to drop in 1982 and is expected to be 7.7 percent on January 1, 1983.

Farmers Home Administration's (FmHA) farm real estate debt outstanding is expected to have declined slightly during 1982. This is primarily due to the reduced level of emergency lending as well as to the other factors affecting agricultural lending mentioned earlier. It is expected that FmHA's market share will drop to about 8 percent by January 1, 1983.

Real estate debt held by individuals and others (IO) is expected to have increased less than 1 percent in 1982. In spite of high interest rates, which encourage greater seller financing, the low level of land transfers in 1982 should have reduced IO's share of total farm real estate loans outstanding. Since seller-financed mortgages tend to have shorter maturities than institutional loans, a larger number of seller-financed loans were probably paid off during 1982 without being offset by new seller-financed loans. Hence, the market share of IO is expected to have dropped to about 29 percent by January 1, 1983. Estimates of real estate debt held by IO have been revised back to 1972 based on the 1979 Census of Agriculture Farm Finance Survey.

Farm Non-Real Estate Debt

Total non-real estate debt outstanding is expected to have continued to grow at a reduced rate in 1982 compared to the rate of the late seventies. The current relatively slow growth is the result of reductions in the use of purchased inputs and drastic reductions in the purchase of new farm machinery, both cutbacks due to adverse financial conditions. The forecast 9.3-percent increase will bring total non-real estate debt to about $105 billion on January 1, 1983 (table 4).

Of the private sector non-real estate lenders, commercial banks' outstanding loans showed the greatest percent increase last year. The expected 9-percent growth in 1982 far exceeds the growth of the previous 2 years. An improved competitive situation with production credit associations (PCAs) has helped to bolster banks'

Table 4—Non-real estate farm debt, 1971-1983[a]

Year	Debt owed to reporting institutions (excluding CCC): All operating banks	Production credit assoc.[b]	Federal intermediate credit banks[c]	Farmers Home Admin.	Total	Individuals and others[de]	Total excluding CCC loans	CCC price support and storage loans	Total, including CCC loans
	Million dollars outstanding Jan. 1								
1971 . . .	11,102	5,295	220	795	17,412	4,850	22,262	1,876	24,138
1972 . . .	12,498	6,078	237	771	19,584	5,530	25,114	2,262	27,376
1973 . . .	14,315	6,607	251	780	21,953	6,011	27,964	1,793	29,757
1974 . . .	17,167	7,829	331	877	26,204	6,865	33,069	750	33,819
1975 . . .	18,238	9,482	374	1,044	29,138	7,549	36,687	319	37,006
1976 . . .	20,160	10,717	350	1,772	32,999	8,553	41,552	375	41,927
1977 . . .	23,283	12,170	368	1,877	37,698	9,989	47,687	1,040	48,727
1978 . . .	25,709	13,428	374	3,141	42,652	12,244	54,896	4,540	59,436
1979 . . .	28,273	14,876	509	5,780	49,438	14,297	63,735	5,666	69,401
1980 . . .	31,034	18,021	665	8,982	58,702	16,610	75,312	5,070	80,382
1981 . . .	31,567	19,611	810	11,756	63,744	17,721	81,465	4,978	86,443
1982 . . .	32,948	21,014	913	14,452	69,327	18,780	88,107	8,008	96,115
1983 . . .	35,870	20,127	953	14,978	71,928	19,530	91,458	13,573	105,031
	Percent change in year								
1971 . . .	12.6	14.8	7.7	-3.0	12.5	14.0	12.8	20.6	13.4
1972 . . .	14.5	8.7	5.9	1.2	12.1	8.7	11.3	-20.7	8.7
1973 . . .	19.9	18.5	31.9	12.4	19.4	14.2	18.3	-58.2	13.7
1974 . . .	6.2	21.1	13.0	19.0	11.2	10.0	10.9	-57.5	9.4
1975 . . .	10.5	13.0	-6.4	69.7	13.3	13.3	13.3	17.6	13.3
1976 . . .	15.5	13.6	5.1	5.9	14.2	16.8	14.8	177.0	16.2
1977 . . .	10.4	10.3	1.6	67.3	13.1	22.6	15.1	337.0	22.0
1978 . . .	10.0	10.8	36.1	84.0	15.9	16.8	16.1	24.8	16.8
1979 . . .	9.8	21.1	30.6	55.4	18.7	16.2	18.2	-10.5	15.8
1980 . . .	1.7	8.8	21.8	30.9	8.6	6.7	8.2	-1.8	7.5
1981 . . .	4.4	7.2	12.7	22.9	8.8	6.0	8.2	60.9	11.2
1982 . . .	8.9	-4.2	4.4	3.6	3.8	4.0	3.8	69.5	9.3
	Percentage distribution of debt outstanding Jan. 1								
1971 . . .	46.0	21.9	.9	3.3	72.1	20.1	92.2	7.8	100.0
1972 . . .	45.7	22.2	.8	2.8	71.5	20.2	91.7	8.3	100.0
1973 . . .	48.1	22.2	.9	2.6	73.8	20.2	94.0	6.0	100.0
1974 . . .	50.8	23.1	1.0	2.6	77.5	20.3	97.8	2.2	100.0
1975 . . .	49.3	25.6	1.0	2.8	78.7	20.4	99.1	.9	100.0
1976 . . .	48.1	25.6	.8	4.2	78.7	20.4	99.1	.9	100.0
1977 . . .	47.8	25.0	.8	3.8	77.4	20.5	97.9	2.1	100.0
1978 . . .	43.3	22.6	.6	5.3	71.8	20.6	92.4	7.6	100.0
1979 . . .	40.8	21.4	.7	8.3	71.2	20.6	91.8	8.2	100.0
1980 . . .	38.6	22.4	.8	11.2	73.0	20.7	93.7	6.3	100.0
1981 . . .	36.5	22.7	.9	13.6	73.7	20.5	94.2	5.8	100.0
1982 . . .	34.3	21.9	.9	15.0	72.1	19.6	91.7	8.3	100.0
1983 . . .	34.1	19.2	.9	14.3	68.5	18.6	87.1	12.9	100.0

[a]1983 Preliminary. [b]1975-82 revised to exclude aquatic loans. [c]Financial institutions other than PCA's that obtain funds from the FICB's. [d]Includes Small Business Administration farm loans estimated at $.3 bil., $1.7 bil., $2.4 bil., $2.6 bil., $3.2 bil., and $2.8 for Jan. 1, 1978, 1979, 1980, 1981, 1982, and 1983 respectively. [e]1972-82 revised, based on 1979 Census of Agriculture, Farm Finance Survey.

Table 5—Quality of farm loan portfolio[a]

Quality of portfolio	Change, Mid-1981 to Mid-1982: Increase	Decrease	Same	Expected change, Mid-1982 to Mid-1983: Increase	Decrease	Same
	Percent of banks reporting					
Rate of farm loan repayments	6	69	25	19	43	38
Rate of renewals and extensions	78	3	19	53	16	31
Rate of delinquencies 30 days and over	46	5	48	35	14	51
Rate of farm losses (charge offs).	36	5	59	41	10	49
Rate of refinancing (converted short-term debt into long term real estate secured loans).	64	5	31	54	8	38
Overall quality of farm loan portfolio	8	62	30	17	44	39

[a]Data were obtained in a survey conducted by the American Bankers Association (ABA) in August-September 1982.

growth in non-real estate debt outstanding. There has been a significant reduction in the commercial bank-PCA interest rate differential—4 percentage points in early 1981 to less than 2 percentage points through most of 1982.

Production credit associations' farm non-real estate debt outstanding is expected to have declined about 4 percent in 1982. This would be the first drop in PCA loans outstanding since 1953. The PCAs' market share continued its decline and is now forecast at 19.2 percent for January 1, 1983. The market share of PCAs peaked in 1975 and has been declining ever since. These private lenders have been losing market share to Government lenders such as Farmers Home Administration, Commodity Credit Corporation, and the Small Business Administration. The PCA debt series has been revised back to 1975 to exclude loans for aquatic purposes.

The loans held by Federal intermediate credit banks (FICBs) are expected to have grown about 4 percent in 1982, a rate of growth substantially reduced from prior years. FICBs provide funds to "other financial institutions," primarily agricultural credit corporations affiliated with commercial banks. Since commercial banks' competitive position has improved this year due to declining interest rates, and since the overall demand for farm loans is down, the need to form other financial institutions to access FICB funds diminished considerably in 1982.

Non-real estate debt outstanding held by the Farmers Home Administration grew only about 3 or 4 percent in 1982, to about $15 billion. This percentage increase compares to a compound annual growth rate of over 50 percent from 1977 to 1982. Other non-real estate lenders grew at a rate of about 12 percent during this period. This year's reduction in the growth of FmHA's non-real estate debt has resulted from a substantial decline in emergency lending. After increasing every year since 1977, when FmHA had 3.8 percent of the market, FmHA's market share is now expected to be down from 15 percent at the start of 1982 to about 14 percent on January 1, 1983.

The estimates of non-real estate debt held by individuals and others have also been revised back to 1972 based on the 1979 Census of Agriculture Farm Finance Survey. Growth in this category has also slowed in recent years and is estimated to have been about 4 percent during 1982. During this same period, the six full-line farm machinery manufacturers' farm loans outstanding dropped about 3 percent (table 6). Overall, the market share of non-real estate farm debt held by individuals and others is expected to be down to 18.6 percent on January 1, 1983.

The Commodity Credit Corporation is forecast to have increased its outstanding farm debt about 70 percent to $13.6 billion by January 1. Low commodity prices and relatively high interest rates have stimulated a strong demand for CCC loans during 1982. CCC's share of total non-real estate debt is expected to have increased from 8.3 percent to about 13 percent by January 1, making it the only non-real estate lender to have gained market share in 1982.

Table 6—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment[a]

	Loans outstanding end of year	
	Million dollars	*Percent change*
1970	1,170	—
1971	1,179	.7
1972	1,499	27.1
1973	1,183	-21.1
1974	1,160	-1.9
1975	1,530	31.9
1976	2,192	43.3
1977	3,067	39.9
1978	3,131	2.1
1979	3,488	11.4
1980	4,860	39.3
1981[b]	6,129	26.1
1982[c]	5,965	-2.7
	Loans made during year	
	Million dollars	*Percent change*
1970	928	—
1971	936	.9
1972	1,329	42.0
1973	1,065	-19.9
1974	876	-17.7
1975	1,236	41.1
1976	1,915	54.9
1977	2,682	40.1
1978	2,661	-.8
1979	3,133	17.7
1980	4,396	40.3
1981[b]	4,683	6.5
1982[c]	4,047	-13.6

[a]Excludes loan estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other 2. Data, including estimates for 1982 and revisions, were provided by the six companies. [b]Revised. [c]Estimated.

Interest Rates and Charges

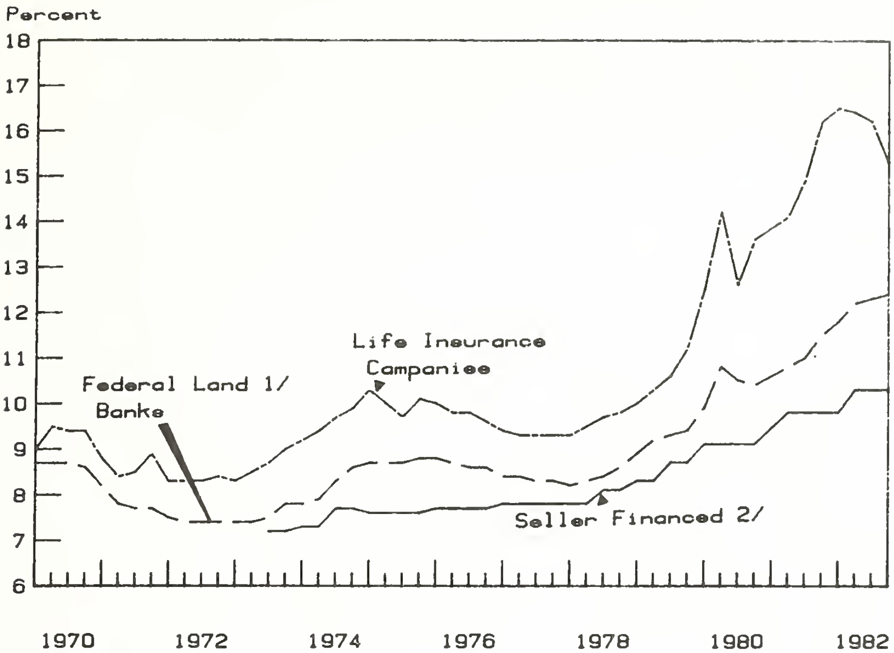
Most interest rates averaged lower in 1982 than in 1981 and they are expected to average still lower in 1983. However, they will likely rise somewhat as 1983 progresses. The timing of the turning points of these interest rate trends depends largely on developments in the general economy. A general economic recovery coupled with large Federal budget deficits and a restrictive monetary policy could lead to rising interest rates in 1983.

Most farm interest rates declined during 1982. PCA rates dropped from 15.3 percent in January to about 13.8 percent currently. Typical rates at commercial banks declined from around 17 percent in the first quarter of 1982 to about 15.5 percent in the final quarter.

Government lenders' rates also declined in 1982. FmHA's operating and farm ownership loans carried rates of 14.5 and 13.25 percent, respectively, in January. Both types of loans are currently at 11.5 percent. CCC rates on commodity loans rose from 12.25 percent in January to 14.9 percent in March, then declined to 9.13 percent by the end of the year.

The Federal land bank interest rates increased throughout the first half of the year as the banks retired relatively low-cost bonds and replaced them with bonds carrying higher rates. FLB rates stabilized during the third quarter of 1982, then declined somewhat by year's end as market rates continued to fall. The difference in the Federal land bank and PCA interest rate trends is explained by the difference in the average maturity of the bonds which back their respective loan portfolios——3.5 years for FLB bonds versus 1.2 years for FICB bonds (PCAs' source of funds). Hence, the FLBs' average cost of funds incorporates the cost of bonds

Figure 4. Interest Rates on Farm Real Estate Loans



Quarterly data for Life Insurance Companies (new commitments) and Federal Land Banks (new Loans). Semi-annual data for seller financed, annual data beginning in 1980. Latest rates are 15.3 for Life Insurance Companies in 3rd qtr. 1982, 12.4 for Federal Lank Banks in November 1982, and 10.3 for seller financed in February 1982.

1/ Excludes cost of required stock purchases, and new loan fees.

2/ Financing of the sale is provided by the previous owner of the farmland.

issued before the interest rate escalation of late 1979. However, as those bonds are retired they are refinanced by higher cost money. On the other hand, the FICBs' average cost of money almost fully reflects the higher interest rates which emerged in late 1979. Hence, their average cost of money moves more closely with changes in money market rates.

Interest charges on farm debt are expected to have reached about $23 billion in 1982, up 13 percent from the 1981 figure (these figures reflect the recent debt revisions). Total interest charges consist of $10.3 billion on real estate debt and $12.7 billion on non-real estate debt. The increase in interest expenses in 1982 is about half the 24-percent increase of 1981. The reduction in the growth in interest charges reflects the continued slower growth in debt outstanding. It also reflects a smaller rise in the average interest rate on outstanding debt.

CASH SOURCES AND USES OF FUNDS FOR THE FARM SECTOR

The preliminary estimates for cash sources of funds are $86.7 billion for 1982, down $8.6 billion from the prior year (table 7). Although net cash income is expected to be slightly greater than last year, the net flow of real estate and non-real estate loans declined by $8.9 billion, thereby causing cash sources to decline.

Cash Sources of Funds

Income from Farm and Nonfarm Sources

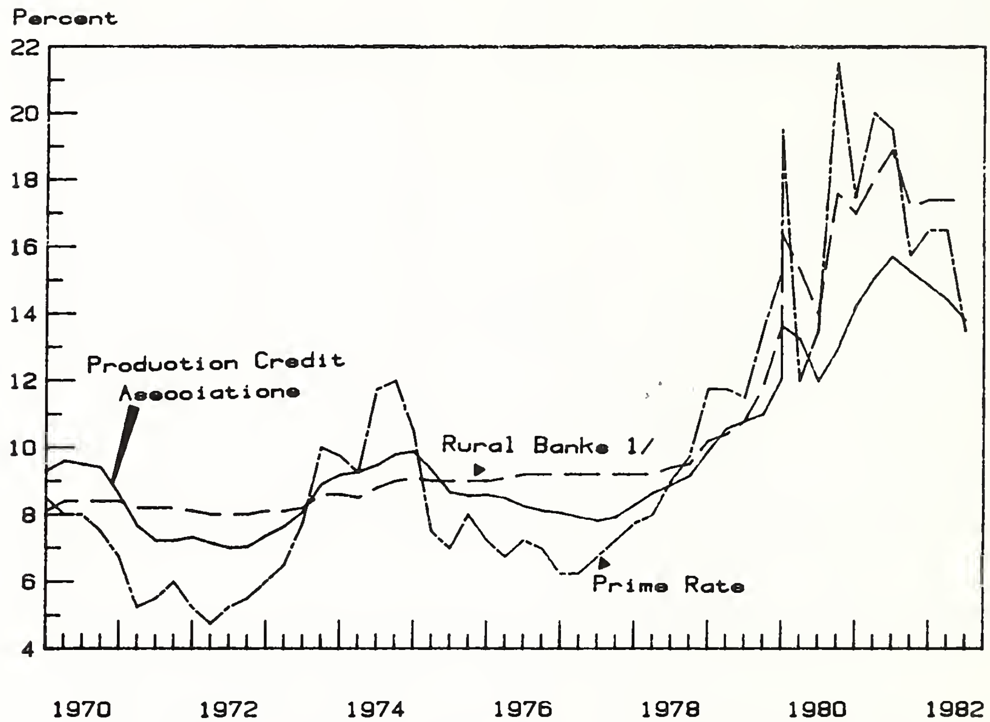
Nominal net cash income from farm and nonfarm sources is estimated to be $78.9 billion for 1982, up $0.3 billion from 1981. Net cash income for 1982 would have been lower except for the fact that Government payments, other income, and off-farm income were up by $2.2, $0.2, and $1.7 billion, respectively. Cash receipts were down $1.3 billion and cash expenses were up $2.5 billion.

The ratio of net cash income from farm and nonfarm sources to total cash uses of funds measures the degree to which farm operators rely on internally generated funds. This ratio trended downward through most of the seventies but was reversed in 1980 and has continued to rise through 1982, implying that farmers have relied more on internally generated funds in recent years.

Farm Borrowing

The net increase in both real estate and non-real estate debt for 1982 is estimated to be less than in 1981

Figure 5. Interest Rates on Non-Real Estate Farm Loans, and the Prime Rate Charged by Banks



1/ Short-term production loans Minneapolis Federal Reserve District. First day of quarter.

Figure 6. Net Farm Income in Nominal and Real Terms

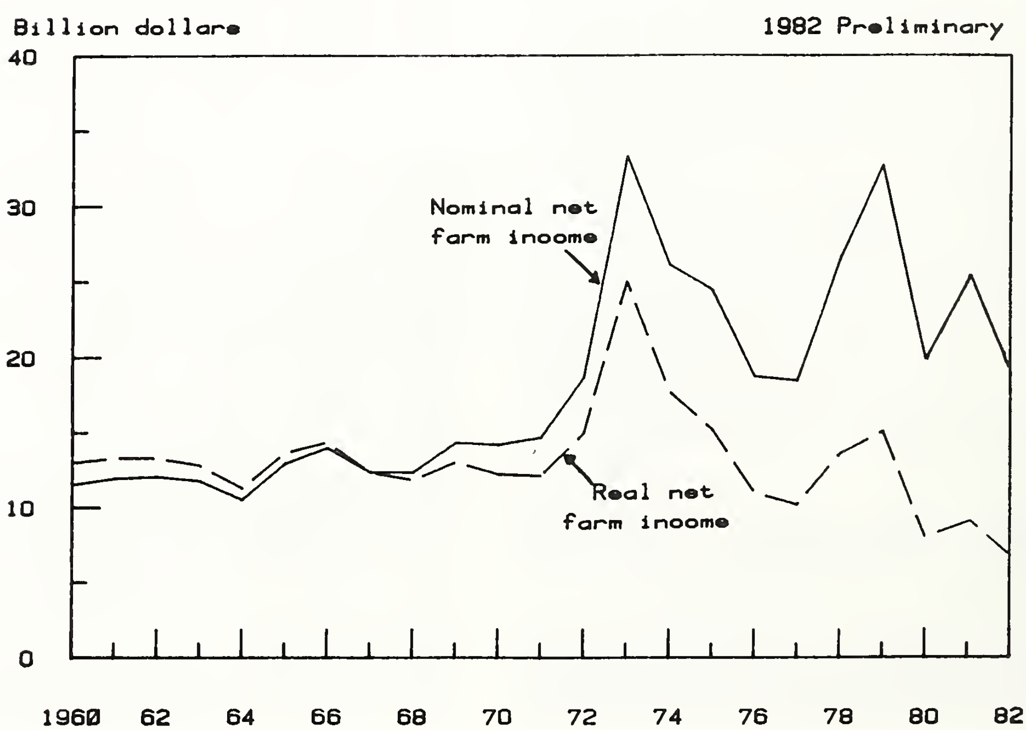


Table 7—Cash sources and uses of funds for the U.S. farming sector, 1971-1983

	1971	1972	1973	1974	1975	1976	1977[a]	1978	1979	1980	1981	1982[b]	1983[c]
	Billion dollars												
Cash sources of funds:[d]													
Net cash income from farm and nonfarm sources[e]	39.5	48.0	66.4	67.2	57.8	60.4	57.3	69.2	78.2	79.7	78.6	78.9	77.1
Net flow of real estate loans	1.8	2.9	4.4	5.1	5.0	5.6	8.2	7.1	15.0	10.1	10.1	4.4	4.5
Net flow of nonreal estate loans[f]	2.9	2.9	5.1	3.6	4.9	6.1	7.2	8.8	11.6	6.1	6.6	3.4	3.8
Total cash sources of funds	44.2	53.8	75.9	75.9	67.7	72.1	72.7	85.1	104.8	95.9	95.3	86.7	85.4
Cash uses of funds:													
Purchases of machinery and motor vehicles	4.9	5.7	7.6	8.2	8.7	10.0	10.6	12.7	14.3	13.0	12.6	11.6	11.7
Capital improvement to real estate assets	2.5	2.4	3.1	4.4	4.7	5.0	5.9	6.9	6.7	6.9	6.3	5.9	6.0
Other capital purchases[g]	3.1	4.3	4.0	.1	2.9	2.7	3.3	7.1	4.3	4.7	5.1	3.6	4.0
Annual capital formation	10.5	12.4	14.7	12.7	16.3	17.7	19.8	26.7	25.3	24.6	24.0	21.1	21.7
Purchases of real estate from discontinuing proprietors	5.7	8.1	10.6	8.6	8.8	10.8	10.4	11.3	13.2	12.4	11.5	11.3	11.7
Total purchased capital	16.2	20.5	25.3	21.3	25.1	28.5	30.2	38.0	38.5	37.0	35.5	32.4	33.4
Other cash uses including personal consumption and nonfarm investment	28.0	33.3	50.6	54.6	42.6	43.6	42.5	47.1	66.3	58.9	59.8	54.3	52.1
Total cash uses of funds	44.2	53.8	75.9	75.9	67.7	72.1	72.7	85.1	104.8	95.9	95.3	86.7	85.5
Total purchased capital	16.2	20.5	25.3	21.3	25.1	28.5	30.2	38.0	38.5	37.0	35.5	32.4	33.4
Change in inventories	1.4	.9	3.4	-1.6	3.4	-2.4	1.0	1.1	5.6	-4.2	5.5	0	-1.3
Total capital flow	17.6	21.4	28.7	19.7	28.5	26.1	29.2	36.9	32.9	32.8	41.0	32.4	32.1
Real dollar flows:													
Total net cash income/CPI	32.6	38.3	49.9	45.5	35.9	35.4	31.6	35.4	36.0	32.3	28.9	27.2	25.3
Personal consumption and other cash uses/CPI	23.1	26.6	38.0	37.0	26.4	25.6	23.4	24.1	30.5	23.9	21.9	18.8	17.1
Analytical ratios:													
Total purchased capital/Total net cash income (line 10/1)	41.0	42.7	38.1	31.7	43.4	47.2	52.7	54.9	49.2	46.4	45.2	41.1	43.3
Total net flow of loans/Total purchased capital (line 2 + 3/10)	29.0	28.3	37.5	40.8	39.4	41.1	51.0	42.8	69.1	43.8	47.0	24.1	25.1
Total net flow of loans/Total capital flow (line 2 + 3/15)	26.7	27.1	33.1	44.2	34.7	44.8	52.7	43.1	80.9	49.4	40.5	24.1	26.2
Cash income/Total cash uses (line 1/12)	89.4	89.2	87.4	88.5	85.4	83.8	78.8	81.3	74.6	83.1	82.6	91.0	90.2
End of year debt outstanding/Total cash income	151	135	110	121	158	172	214	203	212	228	257	272	293

[a]Changes in the definition of a "farm" starting in 1977 caused a significant reduction in the level of nonfarm income of farm firms. [b]Preliminary. [c]Forecast. [d]Cash sources of funds from sale of real estate to the nonfarm sector are not included due to lack of data. [e]Does not include labor prequisites in calculation of production expenses before subtracting from gross cash income. [f]Does not include CCC loans. [g]Includes net additions to household furnishings, commercial bank deposits and currency savings bonds, equity in farmer cooperatives and purchases of breeding livestock.

(table 2). The net flow of real estate loans is expected to decline because of the sluggish real estate market. Also, many farmers are experiencing tight cash flow. The net flow of non-real estate loans is also expected to decline because of low net farm income, high interest rates, and reduced cash flow.

The ratio of debt outstanding to total net cash income is a measure of the relative burden of debt against income. This ratio has generally been rising and is expected to continue to rise in 1982, going to 272 percent from 257 percent in 1981.

Cash Uses of Funds

A cash flow statement requires that cash sources equal cash uses. Total cash available for 1982 is estimated to be $86.7 billion. Uses of funds include the acquisition of capital assets, purchase of consumption items, and withdrawals for off-farm investment.

Farm Capital

Annual capital formation for 1982 is expected to be $21.1 billion, down $2.9 billion from 1981. High interest rates and expectations of low farm income for 1982 have forced continued postponement of capital improvements and purchases of machinery and equipment for many farmers.

Expenditures for other capital purchases are estimated to be $3.6 billion for 1982. Other capital purchases include net changes in bank deposits and currency, savings bonds, equity in farmer cooperatives, net additions to household furnishings and equipment, and purchases of breeding livestock.

The value of real estate purchased by established or beginning farmers, or by non-operator landlords from discontinuing proprietors, is expected to be $11.3 billion in 1982, down slightly from the prior year. This decline is due to the drop in real estate values caused by the present condition of the farm economy.

Changes in crop and livestock inventories are a relatively small, but highly variable, component of capital flow. Unlike other capital assets, most inventories are produced on the farm, and require cash expenditures only for the inputs to produce them. In contrast to the positive change of $5.5 billion during 1981, the crop and livestock inventory is not expected to change in 1982. Declining cattle and hog inventories are expected to offset increasing crop inventories.

Ratios of net flows of loan funds to purchased capital or to total capital flows measure the relative importance of borrowed funds in financing capital acquisitions. The ratio of net flows of loan funds to purchased capital is estimated to be 24 percent for 1982, down substantially from the prior year.

Personal Consumption and Other Cash Uses

Personal consumption and other cash uses of funds include expenditures for food, clothing, taxes, other personal consumption items, and nonfarm investments. The value of this item is calculated by subtracting total purchased capital from total cash sources of funds. The estimated value for 1982 is $54.3 billion, a nominal decline of 9 percent from 1981, and a real decline of 14 percent. This decline is due to the overall drop in cash sources of funds.

OUTLOOK FOR 1983

Factors Affecting Farm Income

Despite some signs of improvement, the overall financial outlook for the farm sector in 1983 appears similar to 1982. Farmers will continue to face cash flow problems, and farm sector returns will continue to be low. Crop prices will be under pressure from heavy supplies, while livestock prices should strengthen. A modest economic recovery is expected for the United States and major trading partners during 1983, and this should slowly improve the demand for farm products. Interest rates and inflation should be less than 1982 levels. Lastly, 1983 farm commodity programs should stabilize and perhaps strengthen commodity prices.

The number of farmers in financial distress will likely increase next year, but the percentage of all farmers in this condition will continue to be low. Cash flow problems are expected to continue, although they will vary widely among producers and geographic regions. As farmers continue to reduce input purchases and capital expenditures, farm suppliers will again be adversely affected in 1983.

While demand prospects for farm products should improve as 1983 progresses, supply adjustments are also likely. There are indications of reduced plantings of most major U.S. crops next year and a further drop in domestic livestock production. Thus, rising domestic use of crop products and potential improvement in the volume of U.S. farm exports should slow the buildup in U.S. stocks. Unfortunately, given the weakness of the world economy and the size of crop stocks, these corrections should not greatly improve commodity prices next year.

Current prospects for improved farm income in 1983 are not favorable. Although production expenses will continue to moderate, perhaps rising only 2-3 percent, total cash receipts are currently not expected to rise significantly. Crop receipts may decline somewhat, but livestock receipts could rise and be offsetting. Weather, economic developments, and farm commodity programs will be major factors affecting the income situation for 1983.

Farm Sector Balance Sheet

Projections for the January 1, 1984 balance sheet and 1983 cash sources and uses of funds were developed with the aid of an econometric model. These projections are based on the most recent forecasts for 1983: real GNP will rise by about 2 percent; the rate of inflation will decline by 1 point to about 5 percent; real interest rates will remain high, not declining much from 1982's 8.5 percent; the value of the dollar will decline modestly; disposable personal income per capita will rise by about 1 percent in real terms; and farm cash receipts will be about equal to 1982, with expenses rising slightly.

Farm sector wealth, as measured by proprietors' equity, is forecast to be $848.8 billion as of January 1, 1984, a decline in nominal and real terms of 1 and 5 percent, respectively (table 8). Although total assets are forecast to increase less than 1 percent to $1,074.6 billion, total liabilities are expected to increase 5 percent to $225.8 billion, which will cause the decline in proprietors' equi-

Table 8—Balance sheet of the farming sector, 1983-1984

Items/Years (Jan. 1)	1983[a]	1984[b]	Percent change
	Billion dollars		
Assets			
Physical assets			
Real Estate	789.1	789.1	—
Non-real estate			
Livestock and poultry	58.3	58.4	—
Machinery and motor vehicles	115.3	117.4	1.8
Crop stored on and off-farm	37.5	38.0	1.3
Household equipment and furnishings	22.4	22.5	.4
Financial assets			
Deposits and currency	17.3	17.8	3.0
U.S. Savings bonds and investment in cooperatives	30.1	31.4	4.3
TOTAL ASSETS	1,070.0	1,074.6	.4
Claims			
Real Estate debt	110.0	114.5	4.1
Non-real estate debt	105.0	111.3	6.0
Total liabilities	215.0	225.8	5.0
Proprietors equity	855.0	848.8	-.7
TOTAL CLAIMS	1,070.0	1,074.6	.4

[a]Preliminary
[b]Forecast

ty. The debt-to-asset ratio—a measure of the sector's indebtedness—is expected to reach a record high of 21 percent.

Real estate values are expected to stabilize during 1983. The value of real estate is expected to be $789.1 billion, no change in nominal terms from 1982 but a real decline of 5 percent. A turnaround in farm real estate values will depend upon a decline in interest rates and an improvement in the returns to land ownership. Real estate assets are expected to stabilize because of the likely decline in interest rates relative to 1982. In addition, commodity prices are expected to stabilize and perhaps strengthen by year's end because of the 1983 Government farm programs and increased demand provided by growth in the general economy. Lastly, expectations that commodity prices are stabilizing could add strength to land prices. Real estate values at the regional level may differ because of differences in interest rates, returns to ownership, and expectation levels.

The value of non-real estate assets is expected to increase slightly during 1983. Livestock and poultry inventory values are expected to remain about the same as the year-earlier level. Quantity is expected to be down slightly, but a slight rise in price is anticipated. The value of crop inventories is expected to rise slightly, mostly because of an increase in price. Machinery and motor vehicle stocks are expected to rise in value by about 2 percent, but the overall demand for these items will be depressed, reflecting the farm income situation.

Financial assets of the farm sector are forecast to grow faster than other assets. Thus, during the year a greater portion of the sector's assets will be held in liquid form.

Farm sector debt for January 1, 1984, is forecast to be $225.8 billion, a 5-percent increase above 1982, but down from the average compound growth rate of 11 percent per annum of the last 13 years. The growth rate of farm debt has declined because of high finance costs, reduced income prospects, and high real interest rates. Although the increase in non-real estate debt is expected to be down from the prior year, it should still be greater than the increase in real estate debt. Commodity Credit Corporation loans are expected to continue strong because of current conditions in the farm economy.

Proprietors' equity as of January 1, 1984, is expected to be $848.8 billion, a nominal decline of 1 percent and a real decline of 5 percent. Farm sector wealth is likely to decline for the third straight year because debt is expected to increase while real estate values, a major portion of total assets, are only expected to stabilize.

Cash Sources and Uses of Funds

Total cash sources of funds for 1983 are forecast to be $85.4 billion, down $1.3 billion from 1982 (table 7). Cash sources of funds consist of net cash income from farm and nonfarm sources and net flows from real estate and non-real estate loans. For 1983, the net cash income from farm and nonfarm sources is estimated to be $77.1 billion, down $1.8 billion from 1982. The net flow of loans is expected to increase slightly because of the decline in interest rates.

Annual capital formation—purchases of machinery and motor vehicles, capital improvements to real estate, and other capital purchases—is expected to total $21.7 billion in 1983, up slightly from 1982. Also, real estate purchases from discontinuing proprietors are estimated to increase only slightly for 1983. Purchased capital during 1983 is not expected to be much larger than in 1982 due to income and interest rate prospects.

Personal consumption and other cash uses of funds are forecast to total $52.1 billion during 1983, down $2.2 bil-

lion from 1982. This item is expected to decline by about 8 percent in real terms.

The analytical ratios at the bottom of table 7 suggest that farmers will keep capital expenditures in check, relative to total net cash income. Although the ratio of purchased capital to net cash income and the ratio of total net flow of loans to total capital flow are expected to be up slightly from 1982, they are still less than 1981. Debt outstanding in relation to total cash income has continued to grow despite the decline in debt's rate of growth. Hence, the burden of debt on income is expected to continue.

FARM TAXATION

The Economic Recovery Tax Act of 1981 (ERTA) contained substantial tax reduction measures. Many of the provisions contained in ERTA were effective in 1982 and will produce significant reductions in farm tax liabilities for 1982. Other provisions will be effective in 1983 and later years and will provide future tax relief. In some cases the tax reductions enacted under ERTA were even more generous than Congress intended. As a result, in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), Congress scaled back some of the tax reduction in ERTA. At least two of these modifications will have a significant impact on the effective tax rate on income from farm capital. The changes include a reduction in benefits under the Accelerated Cost Recovery System and a complete revision of the low-interest leasing rules enacted under ERTA.

Accelerated Cost Recovery System

Under ERTA, annual depreciation deductions for personal property (farm machinery, equipment, livestock, and single-purpose agricultural structures) are figured by applying a statutory percentage to the unadjusted basis of the property.[6] For assets placed in service from 1981 through 1984, this statutory percentage yields depreciation deductions similar to those allowed under the 150-percent declining-balance method. For assets placed in service in 1985, the percentage was scheduled to increase to reflect depreciation deductions under the 175-percent declining-balance method. Finally, for assets placed in service in 1986 and thereafter, the percentage was to be based on the 200-percent declining-balance method. Under TEFRA, these future rate increases have been repealed. Thus, the depreciation rate for personal property will continue to be based on the 150-percent declining-balance method.

The second major change introduced by TEFRA affects assets which are eligible for the investment tax credit. Under ERTA, eligible assets with a 3-year recovery period qualified for a 6-percent investment tax credit, and assets with at least a 5-year recovery period qualified for a 10-percent investment tax credit. The credit did not affect the basis of the asset for depreciation purposes. Under TEFRA, for assets placed in service after 1982, the taxpayer has the option of either claiming the entire credit and reducing the depreciation basis by one-half of the credit or reducing the percentage of the credit by 2 percentage points with no adjustment in the basis.

Both alternatives will produce a slight increase in tax liability for 1983 and later. However, the amount of the increase and the alternative which minimizes tax liability will vary with the investor's marginal tax rate.

Low-Interest Leasing

ERTA contained provisions which guaranteed that qualifying transactions would be treated as leases for Federal tax purposes. These "safe-harbor" leasing provisions permitted purchasers of qualifying property to exchange depreciation deductions and investment tax credits for bargain interest rates.

Although these bargain rates created considerable interest within the farm sector, the real leasing boom occurred in the nonfarm sector, where large corporations saved millions of dollars in taxes through safe-harbor leasing transactions. This significant loss of tax revenues prompted Congress to place substantial restrictions on safe-harbor leases entered into after July 1, 1982, removing their tax advantages. As a result, the interest rates charged on these modified safe-harbor leases should increase considerably. Thus, although modified safe-harbor lease treatment will be available until December 31, 1983, the restrictions effectively repealed safe-harbor leasing after July 1, 1982.

Congress replaced the safe-harbor lease with a new category, the finance lease, which must in substance be a lease rather than a financing arrangement or a conditional sale. Thus, a finance lease must generally satisfy the more restrictive pre-ERTA guidelines to qualify as a lease for tax purposes. One important exception permits the leasing agreement to provide for a 10-percent or greater purchase option at the end of the lease term.

Finance lease treatment will be available for leases entered into after December 31, 1983. These leases will be subject to some of the restrictions which currently apply to safe-harbor leases, including a limit on the amount of property a lessee can lease per calendar year, a limit on the reduction in tax liability that a lessor can achieve, and a requirement that the investment tax credit be spread equally over a 5-year period.

Finance leases are of particular interest to the farm sector. A special rule permits up to $150,000 of farm property to qualify for finance lease treatment per calendar year. In addition, farm finance lease treatment applies to leases of farm property entered into after July 1, 1982. Such leases are not subject to the lessee or lessor limit or the investment tax credit spread. However, these restrictions will apply to finance leases of farm property exceeding the $150,000 amount and entered into after December 31, 1983.

Since farm finance leases are not subject to most of the restrictions that apply to nonfarm finance leases, there is a special tax incentive for lessors to lease to farmers. As a result, farmers who are looking to exchange investment tax credits and depreciation deductions for a reduced interest rate should have no problem locating companies willing to enter into these low interest leasing arrangements.

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[6]Basis is the value assigned to an asset for income tax purposes. For purchased assets, basis is equal to cost.

FINANCIAL OUTLOOK AND SITUATION BY TYPE OF FARM

This section describes the current and prospective financial condition of the major types of farms in the United States. Information helpful in the preparation of this section was obtained through surveys of commercial banks conducted by the American Bankers Association, as well as through the Farmers Home Administration, Federal Reserve District Banks, State Agricultural Extension Service economists, and major life insurance companies. All of the reported information was used in analyzing the financial conditions for 1982 and the outlook for 1983 for the major types of farms.

LIVESTOCK FARMS

Cattle Feeding

Lower feed and feeder cattle prices plus sharply lower interest rates have held down feeding costs in the second half of 1982, and costs are expected to continue favorable through much of the first half of 1983. Some improvement in fed cattle prices as the economy begins to improve, and continued favorable feeding costs, should provide modest profits again in 1983.

Fed cattle marketings are expected to remain well above 1982 levels through first-half 1983 because of the large feedlot placements expected through this winter. However, placements are likely to fall below this year's large numbers in second-half 1983 due to reduced feeder cattle supplies. Although fed beef supplies are expected to remain large in 1983, nonfed slaughter is expected to decline, particularly in the second half.

Beef production in the first half of 1983 may rise about 2 percent over this year's level. However, production in the third quarter may be slightly below this year, while next fall's production may decline 3 to 5 percent. Beef production for all of 1983 may average about 1 percent below this year. Reduced supplies of competing meats, primarily pork, plus some improvement in the economy, should support stronger cattle prices.

Choice fed steer prices at Omaha may average $66 to $68 per cwt in 1983, compared with $64.25 in 1982. Prices are expected to rise modestly through the winter. Larger beef supplies, a continued sluggish economy, and uncertainty about job security will hold prices in the low- to mid-$60 range from late fall through winter 1982-83. Seasonally declining meat supplies next spring, plus expected improvement in the economy, will likely allow prices to rise into the upper $60's. Prices above $70 may be possible at times next spring through midsummer. The extent of herd rebuilding and economic growth will play an important role in determining prices in the second half. A slow rate of economic growth, continued high unemployment, and pent-up demand for replacement durable goods will likely hold down second-half 1983 beef price gains. In addition, supplies of competing meats are expected to rise during the fourth quarter. Consequently, second-half fed steer prices may average $65 to $70 per cwt.

Returns, particularly next spring through summer, should be favorable. However, feeder cattle supplies are declining, and beginning in the spring quarter of 1983 feeder cattle prices are likely to rise above the lower levels of 1982. Cattle feeders are expected to remain cautious bidders, but feeder calf prices may be bid up next spring as feedlot operators see potential for second-half profits.

The July 1982 Agricultural Credit Survey conducted by the American Bankers Association indicated that where beef feedlot operations were the most important type of farming in which a bank's borrowers were engaged, 45.8 percent of the bankers expected net earnings to increase for their feedlot borrowers during June 1982-June 1983. Some 20.8 percent of the bankers expected their feedlot borrowers' net earnings to decline during the same time span.

1982 Financial Conditions

The profitability of fed cattle marketings improved in 1982. Cattle marketed in 1982 produced the first sustainable monthly profits since mid-1979. Cattle marketed in April through August returned a profit or covered all costs of production. However, in late summer through fall, marketings again failed to cover all costs, as beef supplies increased seasonally and the recession deepened. Nevertheless, these fed cattle marketings continued to cover feed and feeder cattle costs, plus give some payment on other costs.

Cow-Calf (Cattle Raising)

Financial pressures and economic uncertainty have made cattle producers reluctant to expand. Cow-calf producers have been concerned with reducing debts and improving cash flow, particularly in the mixed crop-livestock production areas. Beef herds are being closely culled or, in some instances, liquidated. Selling the cow has been viewed by many producers as a better choice than producing for the uncertain returns of the future.

Consequently, the beef herd on January 1, 1983, is expected to be below the number of a year earlier. Cow slaughter through September was 10 percent above that of a year earlier. Furthermore, slaughter levels in the Lake States-Corn Belt, Southeast, and Pacific Northwest areas were 19, 16, and 28 percent, respectively, above a year earlier. Therefore, both the cow herd and the 1983 calf crop are expected to decline.

Feeder cattle supplies on October 1, 1982, were 1 percent below a year earlier. The supply is expected to drop further in 1983. Continued favorable feeding costs plus moderately stronger fed cattle prices may result in improved feeder cattle prices. In addition, feeder cattle production costs have been held down by the slowdown in the general inflation rate and the much improved forage supplies in 1982. The rate of cost increase should continue to moderate in 1983, as most producers hold down cattle inventories and thus have excess forage supplies.

Yearling feeder cattle prices at Kansas City will be near to slightly above fed cattle prices until next spring. Prices may average above $70 per cwt next spring, particularly if grazing conditions are good and herd rebuilding becomes more evident. Feeder cattle prices may average in the upper $60's in the second half of 1983. Prospects for larger pork supplies in late 1983 through 1984 are likely to hold down prices. For the year, prices for yearling steers at Kansas City may average $66 to $70.

Feeder calf prices may be more volatile, with prices, particularly next spring, averaging $5 to $10 per cwt

above the yearling prices. A smaller feeder cattle supply is likely to result in higher bids as fed cattle prices strengthen.

The July 1982 ABA survey showed that where beef-cow operations were the most important type of farming in which a bank's borrowers were engaged, 30.6 percent of the bankers expected net earnings of their beef cow-calf borrowers to increase during June 1982-June 1983. A total of 34.7 percent of the bankers expected their beef cow-calf borrowers' earnings to decline during the same time span.

1982 Financial Conditions

Yearling feeder steer prices in 1982 averaged about $1 per cwt below the $66.25 average of a year ago. Lower feeder cattle prices plus financial pressures have resulted in a reduction in the beef cow herd.

The July 1982 ABA survey indicated that where beef cow-calf operations were the most important type of farming in which a bank's borrowers were engaged, 85.6 percent of the bankers estimated that net earnings had decreased for their cow-calf borrowers between June 1981 and June 1982. Of major regions, the Plains had the largest portion of bankers (90.1 percent) who thought their cow-calf borrowers had experienced declines in net earnings during this time span.

Hogs

Despite the greatly improved net income in 1982, pork production is expected to decline through most of 1983. Producers continue to hold down breeding inventories to reduce debts and improve cash flow. These financial problems largely remain from the losses that hog producers suffered during mid-1979 through 1981. As of September 1, 1982, hog producers indicated that they intended to have 10 percent fewer sows farrow during September-November than a year earlier, slightly less than the 9 percent indicated earlier in the year. Also, producers indicated that they intend to have 4 percent fewer sows farrow during December 1982-February 1983. If these intentions are realized, pork production in the first 3 quarters of 1983 may be 6 percent below last year.

Hog prices in the first and second quarters are expected to average $58 to $62 per cwt, compared with $48.17 and $56.46 in the first and second quarters of 1981. Prices in the third quarter may average $59 to $63 per cwt, compared with $61.99 a year earlier. In the fourth quarter, production may rise 4 to 6 percent and prices are expected to average about the same as this year, $55-$57 per cwt.

Feeding costs are expected to be lower during the first half of 1983 due to the record-large corn and soybean crops. These costs are expected to be above a year earlier in the second half, as corn and soybean meal prices rise because of tightening supplies. These tightening supplies will result from the acreage reduction program.

Financial conditions of hog producers should continue to improve through first-half 1983, as producers are expected to be in a profitable situation. In the second half, they are expected to cover most of their costs, including ownership costs. Despite the relatively high returns, though, producers will likely increase their breeding herd only modestly during 1983.

1982 Financial Conditions

Despite the greatly improved returns, the breeding inventory liquidation which began in late 1979 continued through 1982. Hog prices for 1982, at $56 per cwt, are expected to average $11 per cwt more than in 1981. Lower corn and soybean meal prices have contributed to improved feeding margins.

Sheep and Lambs

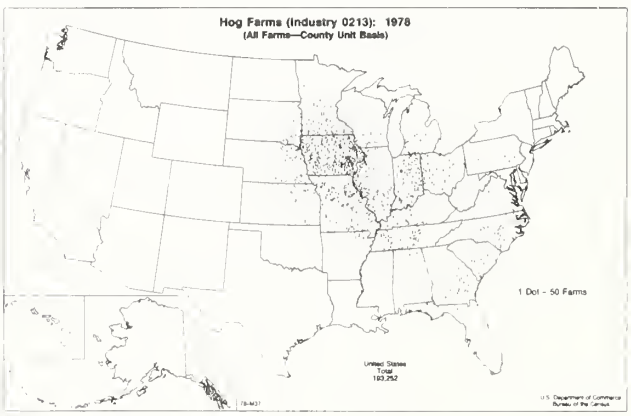
The financial outlook for sheep and lamb producers is expected to continue somewhat unfavorable. In 1983, Choice lamb prices at San Angelo may average $55 to $60 per cwt—about the same as in 1982. Commercial lamb and mutton production may rise about 5 percent in 1983. Returns to sheep and lamb producers are expected to cover cash costs and partially cover producers' labor and management. Problems with predators and with obtaining adequate labor for sheep operations will continue to plague producers.

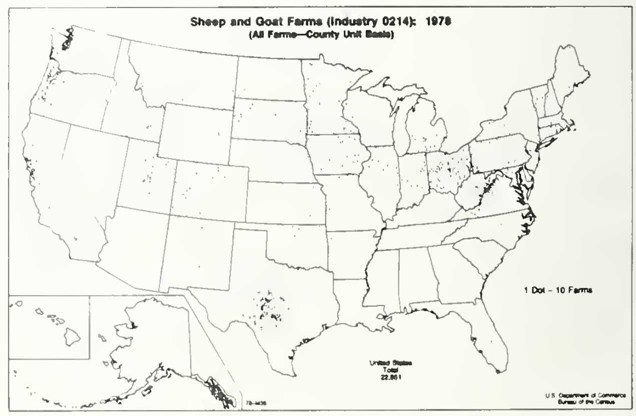
1982 Financial Conditions

Overall financial conditions for sheep and lamb producers deteriorated to some extent during 1982. Choice lamb prices at San Angelo are expected to average $56 to $57 per cwt, compared with $58.40 in 1981.

DAIRY

Financial conditions for dairy farmers during 1983 may not be as strong as in 1982. The support level set



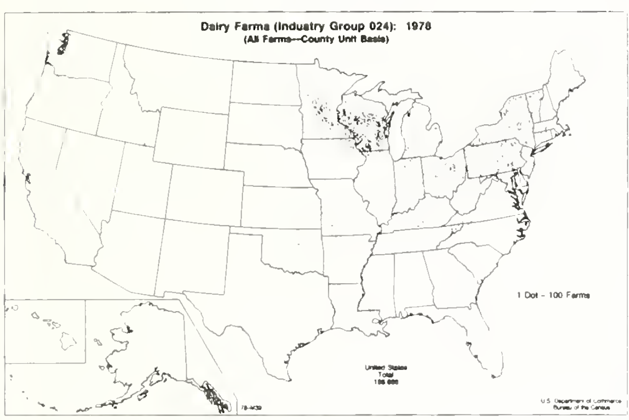


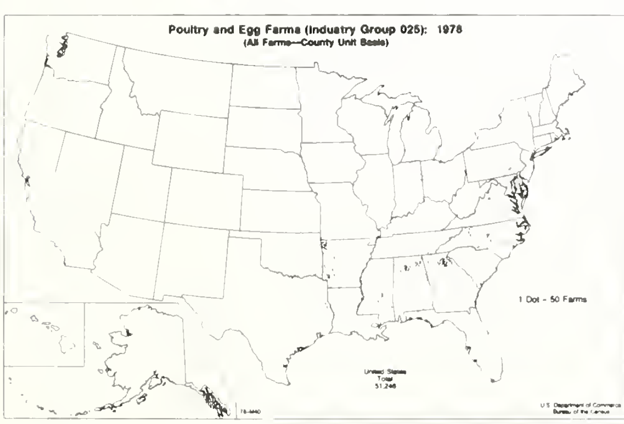
on October 1, 1980, $13.10 per cwt, can remain in effect through October 1, 1984. In addition, as authorized in new dairy legislation contained in the Omnibus Budget Reconciliation Act of 1982, the Secretary implemented a 50-cent-per-cwt deduction for all milk marketed after December 1, 1982. On December 16, USDA announced proposed regulations for collecting a second deduction of 50 cents on the sale of milk marketed commercially. This second deduction is proposed to begin April 1, 1983. Thus, by mid-1983, the effective returns that farmers receive per cwt of milk could decline more than 6 percent from a year earlier.

Dairy farmers' reactions to the deductions will play a key role in determining the size of 1983 milk output. Although the first deduction has already been largely offset by lower feed costs, the second deduction could partly offset other economic factors that point to increased milk production—continued low feed costs, large forage supplies, and weak prospects for alternative types of employment. The squeeze the deductions will place on producer returns, starting with reduced May milk checks (the second 50-cent deduction), is expected to cause a decline in milk cow numbers. Nevertheless, numbers probably will not drop below the year-earlier level until late summer; for the year they will likely average near 1982. With the same number of cows and an expected 2-percent increase in output per cow, milk production is projected to be up 2 percent in 1983.

1982 Financial Conditions

The overall financial condition of dairy farmers deteriorated slightly during 1982. While prices received for all-milk are expected to average about 2 percent below a year earlier, cheaper grain prices have held producers' net income just below 1981 levels. The production expansion which began in mid-1979 continued throughout 1982. As a result, 1982 milk production will be about 2 percent above the record 132.6 billion pounds in 1981. This increased production for 1982 is due to about a 1-percent increase in the dairy herd and a modest increase in output per cow.





POULTRY

The 1983 financial outlook is unfavorable for broiler producers, but mixed for turkey and egg producers. The record corn and soybean crops will weaken feed costs, but nonfeed costs will likely continue to rise. Consumers have had wage and salary incomes pinched and are resisting higher prices. With only a slow recovery expected, consumer budgets will likely continue tight in 1983. Foreign demand for poultry and eggs has been weakened by declines in foreign currency earnings in many countries and by increased strength of the U.S. dollar.

In spite of a reduction in the cumulative hatchery supply flock (pullets placed 7 to 14 months earlier), broiler producers are continuing to increase the number of eggs set. The decline in feed costs and the drop in pork production are expected to encourage further broiler output increases. However, the decline in the number of replacement pullets this year will likely limit production increases to 1 to 3 percent next year. Continued weak wage and salary incomes will likely result in the 9-city wholesale price for broilers averaging 43 to 49 cents per pound, compared to this year's 43 to 44 cents.

Egg producers' net returns may turn negative during much of 1983 even if they continue trimming output slightly, as they did in 1982. Unemployment is expected to remain historically high and this will likely continue to limit egg price rises during 1983. Production will likely be 1 to 2 percent below 1982 because producers have not been increasing numbers of replacement pullets and a record percentage of the flock has been force molted.

Favorable returns to turkey producers in June through November 1982 are expected to encourage an expansion in output in 1983. Output of turkey meat may increase 3 percent from 1982. Large increases in output are not expected, though, because the number of turkey hens has been reduced. Returns are expected to be unfavorable during the first half of next year because of the continued slow growth in consumer income and the increase in turkey output.

1982 Financial Conditions

Broiler producers' net returns for nonbrand birds were negative during 1982. Costs moderated during 1982, especially feed costs, but prices remained weak. Producers usually realize higher prices and profitable returns when pork production declines, but limited growth in personal income, high unemployment, and declining exports have kept prices weak. Output expanded again in 1982, but the expansion was a result of heavier slaughter weights; the number of birds was about the same.

Egg producers had favorable returns in 3 of the 4 quarters of 1982. Even with production reduced 1 percent, the sharp drop in exports weakened prices in the third quarter. Producers have begun to stabilize the number of replacement pullets entering the flock. Low returns in prior years caused producers to reduce orders for replacement pullets. Management practices have likely

changed and more producers are force molting their hens. This practice reduces the demand for replacement pullets, thus cutting capital needs when interest rates are high.

Turkey production was profitable in June through November 1982. Large supplies of frozen turkeys and increased production in the first quarter kept prices weak during the first half, but lower production and reduced frozen supplies improved prices in most of the last half. Lower feed prices have helped reduce the cost of production during 1982.

CASH GRAIN FARMS

Cash grain farmers can expect another difficult year in 1983. Prices received probably will not keep pace with the rise in production expenses. This pessimistic forecast is due to 1982 bumper crops of corn, wheat, and soybeans. Most respondents to the farm credit surveys expect 1983 net farm earnings to be the same as or lower than in 1982. The same can be said for their expectations regarding borrower repayment ability.

During 1982 grain farmers were plagued with persistently high interest rates and the third consecutive year of low farm income. Many farmers have experienced a severe cash-flow squeeze as production expenses have outpaced cash receipts.

Farmers continue to respond to these adverse conditions by postponing the purchase of machinery and equipment. Most lenders report an increase in loan renewals and delinquencies, as well as a decline in the rate of loan repayments.

Most respondents to the farm credit survey indicated that grain farmers' net worth had either remained the same or declined during 1982. It appears that loan repayment ability has also declined for many grain farmers.

Corn

Corn farm prices are expected to average $2.15 to $2.35 a bushel in 1982/83, compared with $2.45 in 1981/82 and $3.11 in 1980/81. Producers who complied with the 10-percent feed grain acreage reduction program in 1982 are eligible for the regular loan, $2.55 a bushel; the farmer-owned reserve (FOR) loan, $2.90 plus prepaid storage of $0.265 a bushel; and deficiency payments, which are likely to be $0.15 a bushel. About 28 percent of the corn acreage base was in compliance with the 1982 program.

Eligible corn producers are making good use of the FOR, taking advantage of the higher loan rate and the storage payment. Over 65 percent of the 1982/83 carryover could be in the FOR. That grain cannot be sold within the next 3 years unless the national average farm price reaches $3.25 a bushel. However, if a payment-in-kind is offered in 1983, reserve grain may be given to participating producers as a payment for reducing production.

The 1982 corn crop is estimated at a record 8.33 billion bushels. Harvested area was slightly below the 107 million acres of 1981, but yields rose to an all-time high of 114.4 bushels an acre. The total corn supply for 1982/83 is estimated at 10.7 billion bushels, 10 percent more than last season.

The number of grain-consuming animal units in 1982/83 likely will be slightly larger than in 1981/82. More intensive feeding in response to the relatively high livestock/feed price ratios, particularly for hogs, also may add to feed use. Feed and residual use of corn this year is expected to total 4.2 billion bushels, about 3 percent above 1981/82.

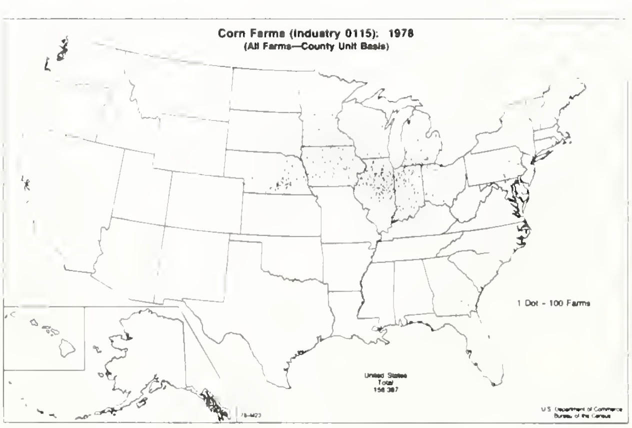
Food and industrial use of corn grew about 10 percent during 1981/82 and further growth is expected this season. The market for corn sweeteners and ethanol will provide a basis for increased corn processing.

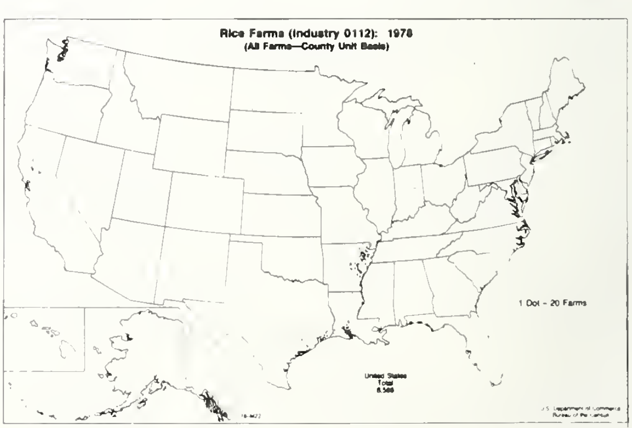
Exports of feed grains are expected to rise in 1982/83, perhaps by about 7 percent. Global coarse grain trade is expected to be little changed from 1981/82, but with a larger share of world exportable supplies, the U.S. trade share could increase slightly. U.S. corn exports are expected to total 2.1 billion bushels, up 133 million from last year.

Rice

The 1982 U.S. rice crop is forecast at 153 million cwt, with yields expected to average 4,650 pounds per acre. Lower production this year is due mainly to the 15-percent voluntary acreage reduction program. Nevertheless, the 1982 crop will be the second largest on record. Add to this beginning stocks of almost 49 million cwt—nearly triple a year ago—and 1982/83 supplies will likely equal 1981's unprecedented 202 million cwt.

Total rice disappearance in 1982/83 is expected to fall short of last year's 153.3 million cwt, to around 142 million. Signs of economic improvement should help continue the steady growth in domestic use of rice that's occurred in recent years. Ample supplies and low prices will likely spur a continued increase in the use of rice by





brewers. Larger use by food processors and brewers is expected to boost 1982 domestic disappearance to 62.5 million cwt, up 5 percent from 1981's 59.4 million cwt. However, due largely to a sluggish world economic outlook and weak import demand by several countries, exports, forecast at 69 million cwt, could be well under last season's disappointing level of 82 million cwt.

This season's near-record supplies and prospects of another sharp increase in total stocks will likely keep the season average farm price for rough rice between $7.50 and $8.25 a cwt, well below last year's $9.03. With the average farm price below the $10.85 target price during August-December, participants in the 1982 acreage reduction program will receive deficiency payments. Planting decisions next spring will be strongly influenced by the 1983 rice program. Although the program has not yet been announced, some of the provisions are included in the Omnibus Reconciliation Act signed by the President on September 7.

World rice production for 1982/83 is forecast at 268 million metric tons (milled basis), down from the record 411 million tons a year earlier. Consumption is expected to be 273 million tons, drawing world stocks down to 17 million tons.

Wheat

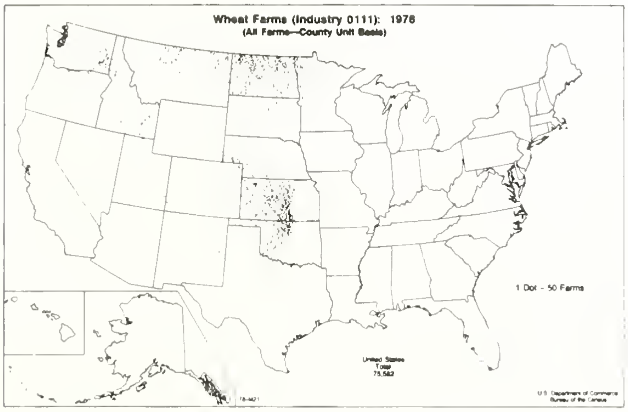
Although U.S. wheat growers harvested fewer acres in 1982, favorable growing conditions in major producing areas were more than offsetting. Yields rose to an all-time high of 35.6 bushels an acre, producing the largest wheat crop in U.S. history. Total 1982 production is estimated at a record 2.8 billion bushels, 1 percent above the previous high in 1981. The bumper crop adds to the very large June 1 carry-in of old-crop stocks to create a record wheat supply of 4.0 billion bushels for 1982/83. Prospects are dim for using the entire 1982 crop; thus stocks carried into the 1983/84 marketing year (June 1-May 31) could reach 1.5 billion bushels, close to the 1961 record. More than three-fourths of the carryover will be grain reserve stocks and Government inventories.

Effects of the record supply have been quite severe, with market prices hitting a 4-year low. Because farm prices have fallen as much as 30 cents a bushel below the $3.55 regular loan, eligible producers have made heavy use of the $4-a-bushel grain reserve loan. Accelerated export buying and continued use of the reserve could help bolster prices in the short run, while indications of widespread participation in the 1983 acreage reduction and diversion program could buoy more distant prices. However, for this season, the average farm price is forecast at $3.40 to $3.50 a bushel, below last season's $3.65. The low June-October average farm price means that a 50-cents-a-bushel deficiency payment will be due program participants. Total payments may reach $475 million, compared with $415 million in 1981.

Ending 5 years of steady growth, world wheat trade during 1982/83 may be down 2 to 3 million tons from last year's record 109 million. Intense competition among exporting nations and reduced imports by the Soviet Union are expected to cause U.S. exports to fall 10 percent below 1981/82's all-time high of 1.77 billion bushels. To make the United States more competitive in world markets and to generate additional export sales, USDA announced a 3-year "blended credit" export enhancement program in late October. This program is expected to benefit agricultural exports in general, but its effect on this season's total wheat shipment remains uncertain.

The 1983/84 season will be the second successive one in which U.S. wheat growers will have to reduce acreage to be eligible for target price protection and the loan programs. Participation in the 1983 program is expected to exceed the nearly 50-percent compliance rate in 1982. Faced with low prices at fall planting time and a dim price outlook if supplies are not reduced, growers should harvest fewer acres in 1983 than this year's 79 million.

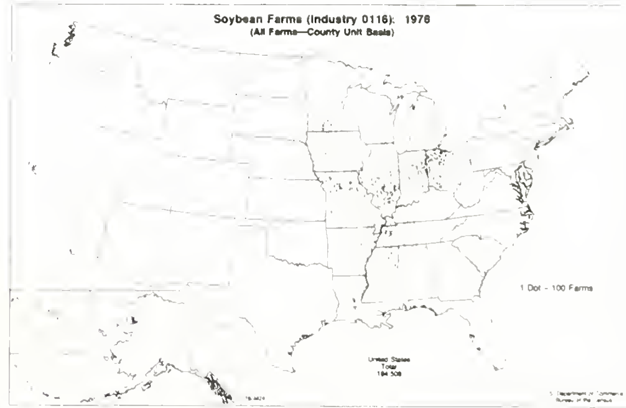
Global wheat production in 1982/83 is forecast at 470 million tons, 7 percent above the 1978/79 record. Because this large crop will outpace expected use, world wheat stocks will rise to their highest point in 4 years. The United States will hold 44 percent of world stocks, up from an average of 30 percent during 1979-1981.



Soybeans

U.S. soybean production in 1982 is estimated at 2.3 billion bushels, 15 percent above 1981. This output, combined with stocks of 268 million bushels on September 1, gives a record-large supply of 2.57 billion bushels for 1982/83, 5 percent more than the previous record set in 1979/80.

U.S. soybean exports are forecast at 950 million bushels in 1982/83, up from last season's record-high 929 million. The European Community (EC) is the key market for U.S. soybeans, taking about 45 percent of our 1981/82 exports. Although the stronger dollar has offset some of the decline in U.S. soybean prices, EC crushings are still projected to increase, because the expected lower



soymeal/corn price ratio in the Community favors meal feeding.

Domestic processors are expected to crush 1.1 billion bushels of soybeans this season, 70 million more than in 1981/82. This season's low soybean prices and large supplies should permit some recovery in crushing margins.

Total soymeal use is forecast at 26.2 million short tons for the season starting this October, 6 percent above 1981/82. Domestic use, at 18.1 million tons, would be 2 percent above last season, while exports, forecast at 8.1 million, would be 17 percent higher. Continued strong demand for soybean oil could push U.S. use to 9.8 billion pounds, 3 percent above last season.

U.S. soymeal prices are expected to average between \$160 and \$180 a ton in 1982/83, down from \$183 last season. The season-average oil price should be between 16 and 20 cents a pound.

Soybean prices are already feeling the weight of prospective record ending stocks—450 million bushels. Farm prices averaged \$5.23 a bushel in September-November, over a dollar below the year earlier. The season-average farm price for 1982/83 is forecast between \$5.25 and \$5.75 a bushel, down from \$6.08 last season. Adjusted for inflation, soybean prices may be the lowest since 1969/70.

To be competitive with corn and cotton grown under acreage reduction programs in 1983, soybean prices would have to rise substantially. Since such a price rise is unlikely, soybean acreage will likely decline somewhat next year, but not by nearly enough to restore soybean stocks and real prices to more normal levels.

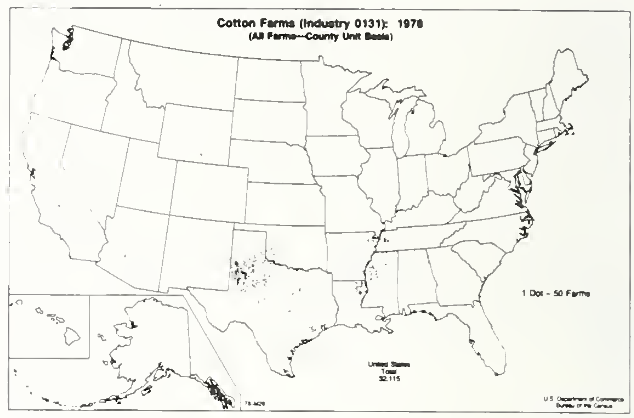
Sorghum

Sorghum farm prices are likely to average \$2.10 to \$2.25 a bushel in 1982/83, compared with \$2.25 in 1981/82 and \$2.94 in 1980/81. Producers who participated in the 1982 feed grain acreage reduction program are eligible for the regular loan rate of \$2.42 a bushel, the FOR loan rate of \$2.75 plus prepaid storage of \$0.265 a bushel, and deficiency payments estimated at 18 cents a bushel.

The 1982 sorghum crop totaled an estimated 826 million bushels, 6 percent below 1981. The average yield was 59.8 bushels per harvested acre, more than 4 bushels below last year. However, because of larger beginning stocks, the supply of sorghum for 1982/83, at 1.12 billion bushels, is 13 percent larger than last season.

Domestic use of sorghum in 1982/83 is expected to be 410 million bushels, compared with 450 million in 1981/82. Exports could increase 4 percent to 260 million bushels. Stocks at the end of the 1982/83 season could reach 450 million bushels, a 155-million bushel increase from October 1, 1982.

COTTON



The 1982 cotton crop is estimated at 12.1 million bales—down 22 percent from last year's 15.6 million. Widespread compliance with a 15-percent acreage reduction program, and low cotton prices at planting time, sharply reduced cotton acreage in 1982. Moreover, severe weather damage to a significant part of the Texas crop in late June caused abandonment of about one-third of the acres planted. Overall, U.S. cotton acreage for harvest in 1982 was only 9.5 million acres, compared with 13.8 million in 1981. Cotton output is being boosted, however, by a record high yield. Average yield per harvested acre is estimated at 613 pounds, 70 pounds above 1981.

Despite 1982's small crop, huge carry-in stocks from last season are keeping the 1982/83 cotton supply fairly high—18.8 million bales, versus 18.3 million for 1981/82. This, combined with an anticipated decline in total use, should prevent any sharp cotton price increases usually associated with declines in production.

Depressed economic conditions, both in the U.S. and abroad, are keeping 1982 cotton disappearance (domestic mill use and exports) to only 10.8 million bales, compared with 11.8 million last year. Therefore, if current forecasts of 1982/83 cotton supply and utilization are realized, stocks on August 1, 1983, may total 8 million bales, sharply above the 6.6 million at the beginning of the season, a level generally considered excessive by the industry.

Reflecting the large stocks and depressed textile activity, cotton prices have experienced downward pressure throughout the 1981 season and into 1982. The average price received by farmers stood at 60 cents a pound in November 1982, 1 cent below a year ago, but over 17 cents below November 1980 prices.

With strong producer participation in the cotton program and the anticipated gradual improvement in global textile mill activity, 1983/84 cotton prospects could show modest improvement. Acreage planted to cotton in the spring of 1983 may total around 12 million acres—0.5 million above this season, and if yields and abandonment return to more normal levels, the 1983 cotton crop would range between 11.5 and 12.5 million bales.

Early indications are that both domestic mill consumption and U.S. exports in 1983/84 will exceed year-earlier levels, with some reduction in cotton stocks likely.

The significantly smaller 1982 cotton crop, combined with sharply lower prices, should push the farm value of production well below the 1981 level of \$4.5 billion.

If farm prices remain around current levels, the gross value for the sale of cotton in 1982 may total between \$3.3 and \$3.7 billion. Included is the estimated value of cottonseed sold by producers, which represents an important contribution to farm income. For the 1982 season, cottonseed returns may range between \$350 and \$400 million, compared with \$545 million last year.

Cotton farm income was greatly aided during 1981 by deficiency payments of \$466 million made under the Food and Agriculture Act of 1977. This was the first year such payments were required, as farm prices for the

calendar year averaged below the target price of 70.87 cents a pound.

For the 1982 season, cotton deficiency payments will again be made. The exact level is yet to be established. However, indications are that 1982 payments could total somewhat above last year. Also, because of the extensive weather damage to the crop in parts of the Southwest, substantial disaster payments, possibly approaching $200 million, may be made to affected cotton producers in 1982. For the 1981 season, disaster payments totaling $78 million were made.

On balance, however, preliminary indications are that 1982 gross cotton farm income from all sources could be moderately below 1981's level of $5 billion.

Upland cotton production costs per planted acre (excluding land costs) were $421 in 1981, an increase of about 22 percent from 1980. But, per pound costs for 1981 dropped sharply due to much higher average yields. Based on 1981's yield of 527 pounds per planted acre, per pound costs totaled 80 cents, compared with 94 cents in 1980. Adjusted for the value of cottonseed sales, net costs were around 73 cents a pound, down from 83 cents in 1980. While cotton production cost estimates for 1982 have not been completed, preliminary indications are that total costs per planted acre may have remained around 1981 levels. But, the large crop losses in some areas this season may cause yields per planted acre to fall below last year. Therefore, per pound costs (planted acre basis) for 1982 could be up slightly.

If these estimates are realized, the total cost of production (excluding land) will exceed average farm prices again in 1982, and many producers will not cover full costs. However, variable costs are generally below farm prices, and most direct production expenses should be met.

TOBACCO

Tobacco supplies for 1982/83 are above a year ago and loan holdings have risen. This year's production is down 6 percent because of reduced quotas and a smaller acreage. Prospects are for another reduction in crop size next year.

The most notable development for tobacco in 1982 was the signing of Public Law 97-218. The new law requires that, to be eligible for price support, producers of all kinds of tobacco must contribute to a fund or account established by the cooperative association that makes Federal support loans available to producers. In 1982, flue-cured growers contributed 3 cents a pound to a no-net-cost account. The amount of this contribution for 1983 has not yet been established. Another provision of the law gives the Secretary of Agriculture authority to reduce support rates for tobacco grades that are in excess supply, to make them more competitive. However, the weighted average support for all grades of any kind of tobacco must provide for at least 65 percent of the increase specified in the basic law. Flue-cured price support increases in 1982 were limited by the full 65 percent permitted under the new law, to average $1.699 per pound, only 7.1 percent higher than a year earlier. Burley prices were also adjusted downward to $1.751 per pound.

Government price support is mandatory for tobacco produced under marketing quotas. For eligible 1983 crops, the overall price support under basic legislation is likely to rise by about 7-1/2 percent over 1982. As required by law, the price support adjustment for 1983 will be based on the average of the parity index in 1980, 1981, and 1982, compared with the 1959 index level. In 1983, price supports for various types of tobacco may increase a minimum of about 5 percent to a maximum of about 11 percent (from the adjusted 1982 level to the full amount under basic legislation), depending on the supply and demand for each type. Flue-cured and burley support price increases are likely to be adjusted downward again from the basic formula.

The size of the 1983 crop depends greatly on USDA's quota levels. The flue-cured basic quota was reduced and the burley quota may be reduced because of large supplies. The prospect is thus for a reduced crop next year with higher prices, but crop value may decline. The reduced quota is expected to push up lease rates in 1983 and lower net returns to tobacco producers.

The 1982 flue-cured auction season ended during early November, and prices averaged $1.78 per pound, 11 cents above last season. The burley crop, the largest on record, is about 8 percent above last season. The burley markets opened in late November and prices through the first 4 weeks of sales averaged about the same as last year.

PEANUTS

Peanut supplies will be ample during the 1982/83 marketing year, despite production 14 percent below that of 1981. Neither domestic nor export demand has rebounded to the levels of the late 1970's (pre-1980 drought). Carryover stocks are larger than normal and prices during September were 10 percent lower than a year earlier. However, prices rebounded in October and November as demand picked up.

The peanut program for 1983, contained in the 1981 Agriculture and Food Act, eliminates acreage allotments but retains farm poundage quotas. Quotas will drop to 1.17 million tons in 1983, from 1.2 million in 1982, and the 1983 price support for quota peanuts again must be at least $550 per ton, as it was in 1982. If production costs rose, the support rate will be higher. USDA can fix support for nonquota peanuts to create market conditions that will avoid any net cost to the Government. The 1982 support was $200 a ton.

VEGETABLES

Fresh Vegetables

The index of prices received by growers for fresh vegetables will average from 120 to 123 (1977=100) in 1982, compared with 135 and 110 during 1981 and 1980, respectively. Record-large production and slowed demand have caused the fall. September's index reading of 88 was the lowest in 4 years.

The increased production and marketings of fresh vegetables in 1982 will not offset the lower prices, so growers' cash receipts will be less than last year. Despite the decrease in 1982, the fresh vegetable industry had an excellent year in 1981, as lower production of some items, strong export demand for onions, and some gaps in marketings combined to sharply increase prices and cash receipts.

Processed Vegetables

Cash receipts to growers of major processed vegetables (snap beans, sweet corn, green peas, and tomatoes) rose sharply during 1982. Returns to tomato and sweet corn producers accounted for the gain, while snap bean and green pea growers probably received gross income similar to last year.

After two short crops, tomato canners in 1982 contracted for a third more tonnage this year, and increased their base contract prices to growers. Therefore, tomato producers probably grossed $100 to $150 million more for their crop this year. The rise occurred despite rains in mid- and late September in California that caused a State crop loss of an estimated 600,000 tons, valued at $37 million. Some of the affected growers were the same ones who lost all or part of the 1981 crop because of heat stress.

Although no data are yet available, average prices received by growers of the other major processed vegetables during 1982 may have risen slightly from a year earlier. In addition, the larger total contracted acreage of snap beans, sweet corn, and green peas and probable higher grower prices for frozen vegetables likely caused a moderate increase in gross income to growers of these vegetables.

Potatoes

Potato growers had two consecutive successful seasons. After 1980's short fall crop, grower prices soared to record highs. Although the 1981 crop was about an eighth more than 1980's, prices remained relatively strong through August 1982 as processors rebuilt stocks that had been drawn down after 1980's harvest. A reduced spring potato harvest in California also firmed prices.

Production in 1982 increased to 348 million cwt, about 4 percent higher than 1981 and the largest outturn since 1978's record. As a result, grower prices dropped from $7.00 to $3.93 a cwt between August and November. However, October's average price was only 4 cents below last year. With larger marketings this fall, growers' receipts could come close to last year's during the final one-third of the year. For all 1982, though, gross returns will not match the record high revenues of 1981.

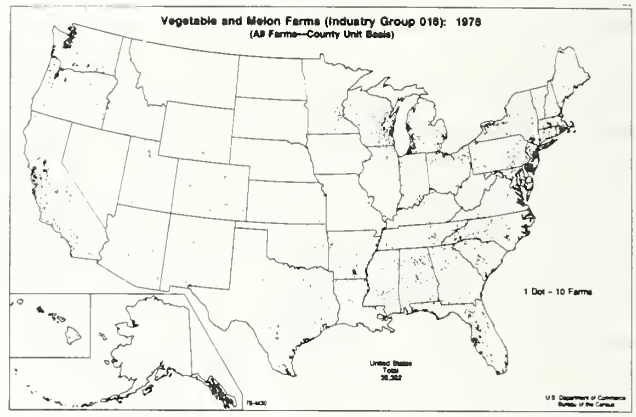
1983 Outlook

Fresh Vegetables

Prices for fresh vegetables will likely resume their upward trend in the coming year. The index of prices received by fresh-market vegetable growers is forecast to average from 125 to 140 during 1983.

Several factors will determine prices. On the supply side, weather, as always, will play its key role. Also, larger fresh vegetable imports from Mexico during the winter and early spring because of the peso devaluation could bolster supplies and push growers' prices down. Conversely, a recurrence of the whitefly virus that plagued California and Arizona lettuce producers last winter could limit production and sharply boost prices.

With respect to demand, consumer expenditures on food and beverages will probably grow very slowly next year. This could keep downward pressure on prices. However, per capita consumption of fresh vegetables and melons has advanced steadily over the past decade, probably because of heightened nutrition consciousness. Over the past 20 years, growers received price gains similar to the rate of inflation but their costs rose less, allowing production to meet the increasing demand.



Despite the low 1982 prices, most growers should be in fairly good financial shape because of the good year in 1981. In some segments of the fresh vegetable industry, it is thought that one banner year every 3 or 4 years will offset any losses accrued in the off years. Most likely, profits from 1981 were largely reinvested in new equipment and technology to enhance future productivity and efficiency.

Procurement practices of the industry should also ameliorate 1982's low returns. There is some forward contracting and many large shippers advance part or all of the growers' variable costs of production. Finally, many firms in the industry are owned by large food companies and conglomerates which have the ability to withstand losses and finance future production.

Processed Vegetables

Tomato growers, as a group, enter 1983 from a year of sharply higher receipts. However, as mentioned previously, some California growers had devastating losses because of September rains. Some of these growers also lost their 1981 crops and could be hard-pressed to service existing debt and finance next year's production.

Despite the larger pack of tomato products in 1982, carry-in supplies were generally very low. Therefore, some shortages of tomato products may occur later in the marketing year. This could cause canners to contract for about the same or slightly higher tonnage in 1983 as the year before. Because of the nature of the 1983 cotton acreage diversion program, some extra area of tomatoes could be planted in California. Also, the favorable 1982 contract prices combined with lackluster crop alternatives suggest growers may be willing to grow more tomatoes next year. Contract prices in 1983 will likely be similar to 1982's, although strong sales in first-half 1983 could boost the terms.

Meanwhile, growers of other processed vegetables during 1983 will likely obtain contract prices similar to those in 1982. Supplies of both canned and frozen vegetables should be ample for trade needs. In addition, with low feed grain and soybean prices, processors should be able to find many growers willing to produce for them. With relatively low supplies of canned peas and canned snap beans in 1982/83, growers for canners of these two crops—primarily in the Midwest—may have some bargaining strength and be able to procure a higher price.

Potatoes

Potato growers' cash receipts will decline in 1983. The larger 1982 crop will push prices down to a season average of $4 to $4.50 a cwt, compared with the favorable $5.41 and $6.55 during 1981/82 and 1980/81, respectively.

The sharp drop in average prices could cause a reduction in 1983 acreage as farmers seek out alternatives. However, movement of frozen potato products has been strong in 1982. If that strength persists, processors could contract for larger acreage in 1983 and raise contract prices. This would primarily benefit Pacific Northwest growers, where about three-fourths of the frozen potato pack occurs.

Others

Sweetpotato producers can expect a 1982/83 season average price of $8 to $11 cwt, compared with $13.60 the 2 previous years. A substantial rise in this year's harvest, the largest since 1965, is the primary culprit. This will probably force an acreage and production cutback in 1983, which in turn should help grower prices in late 1983.

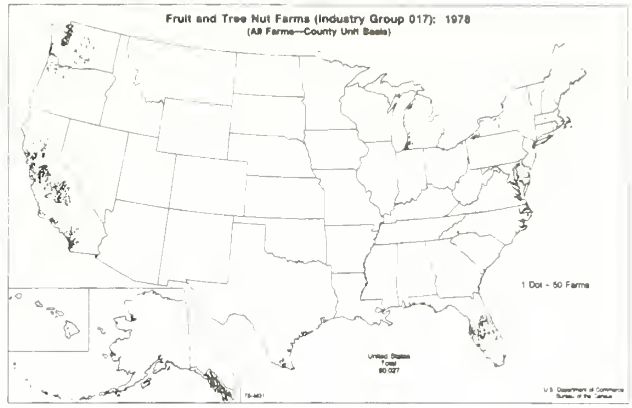
Prospects for 1983 look relatively unfavorable for dry bean producers. The 1982/83 season price will probably be between $13 and $18 per cwt, the lowest since 1978. With a decline in 1982 production, smaller farm marketings will also reduce gross returns to growers. The stagnation of export demand and consequent deterioration of prices will probably cause a further retrenchment in 1983 production. Any price strength in the coming year will be due to increased export sales.

Mushroom production in 1982/83 will probably increase again to a new record. Growth in the higher-valued fresh-market segment will propel the rise. Meanwhile, added duties on processed mushrooms (in effect until September 30, 1983) have seemingly stalled growth in imports, as well as the decline in production of processing mushrooms by the domestic industry. However, prices to growers of processed mushrooms have been declining the past several years. Growers of processed mushrooms are caught in the structural change of the industry. Many have not coped with the switchover from processed to fresh. Thus, many are going out of business, while others find it difficult to produce quality fresh mushrooms. There are a few large American food companies involved in the mushroom industry, and these also affect the industry price and production structure.

FRUIT

The fruit industry expects larger supplies of fresh fruit during the 1982/83 season. Production of both citrus and noncitrus fruit is expected to be substantially larger than last season. Significant increases in production of apples, grapes, and oranges are likely to weaken grower prices substantially. Contract prices for canning noncitrus fruits were negotiated at lower levels than a year ago because of the slow movement of most canned items. Overall, despite the lower prices, larger output will result in relatively good grower returns and the fruit industry will have another profitable year. With the moderate rate of increase in costs of inputs, profits may be near the levels of 1981/82.

The 1982 noncitrus crop, including major tree fruits, grapes, and cranberries, is forecast at 13.1 million tons, 9



percent above last year but still 7 percent below 1980. Although production of the principal summer fruits was smaller, it was more than offset by larger crops of apples and grapes.

The final forecast of the 1982 U.S. apple crop is 8.46 billion pounds, 9 percent more than last year. The Eastern States expect a crop of 3.12 billion pounds, 12 percent above last year. In the Central States, prospects are for a crop of 1.46 billion pounds, 26 percent above last year. Prospects in the Western States are for a crop of 3.88 billion pounds, 2 percent above the 1981 harvest. In response to the larger crop, prices are expected to weaken. In addition, the larger navel orange crop from California will exert some downward pressure on apple prices. Export demand will also be important to apple prices this season, but the export outlook is not very encouraging because of the significantly larger crops from both Canada and the Western European countries. Processor demand for this year's apples is uncertain. However, prices for processing apples have been negotiated below the high levels of last season.

The final forecast for the U.S. grape crop is a record-high 5.68 million tons, 27 percent greater than last year. If the forecast is realized, the 1982 output will be 2 percent above the 1980 record. The sharply larger crop has depressed prices. The 1982/83 season average prices are expected to be sharply below the previous season.

The final forecast of the 1982 U.S. pear crop is 783,350 tons, 12 percent less than in 1981. F.o.b. prices for Bartlett pears have been generally higher than a year ago. Prices of winter pears are not expected to strengthen appreciably, even with a smaller crop. Larger supplies of apples and oranges could exert some downward pressure on pear prices. Overall, prices received by pear growers may average only slightly above last year's level.

December 1 prospects for 1982/83, excluding California "other areas" grapefruit, indicate a citrus crop of 14 million tons, 17 percent more than last season. A sharply larger orange crop is chiefly responsible. Larger crops are also estimated for lemons, limes, tangerines, and Temples, but smaller crops are indicated for grapefruit and tangelos.

December 1 prospects point to an orange crop of 224 million boxes, 26 percent more than last season but 9 percent below 1980/81. Larger crops are indicated for all producing areas. The forecast for production of all oranges in Florida is 147 million boxes, 17 percent above last season's freeze-damaged crop. The California crop is forecast at a record high 67 million boxes—56 percent more than last season and 3 percent above the previous record in 1980/81. All orange production in Texas is

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forecast at 6.2 million boxes, up 4 percent from last season. Arizona producers expect to harvest 3.3 million boxes, 8 percent more than last season. Prices of fresh oranges are expected to fall because of sharply larger supplies of California navel oranges and increased supplies of apples. The 1982/83 season average prices are likely to be substantially below last season's high.

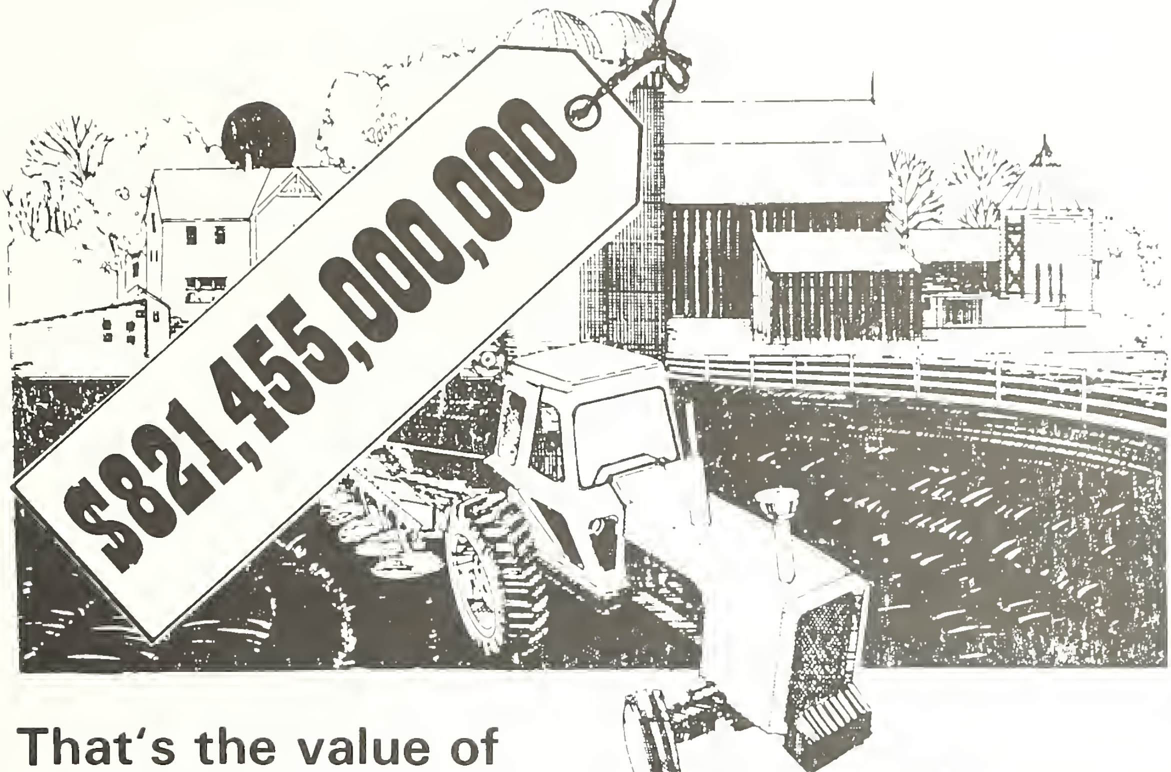
December 1 prospects for 1982/83 grapefruit production (including, for California, only desert valley fruit) point to a crop of 64 million boxes, 5 percent less than last season. Smaller crops in Florida and Texas more than offset larger crops from Arizona and California.

Florida's grapefruit forecast of 44 million boxes is 9 percent less than last year. Texas growers expect to harvest 13.5 million boxes, off 3 percent from last year's large crop. The crop in the California desert area is forecast at 3.9 million boxes, 14 percent above 1981/82. Arizona growers expect to harvest 2.9 million boxes, 21 percent more than last season. F.o.b. prices for Florida grapefruit have averaged moderately below last year even with a smaller crop. However, prices for early December were near last year's levels. Carryover stocks of most processed grapefruit products are up going into the 1982/83 season, so processor demand is not expected to be strong this season. Thus, the larger orange crop and relatively weak processor demand may keep grapefruit prices below last season. However, if export markets improve when the world economy turns around in 1983, good demand might strengthen prices somewhat.

The Arizona-California lemon crop (tree crop available for harvest) is forecast at 31 million boxes, 25 percent above 1981/82 and only slightly below the record-high 1980/81 total. California's crop of 23.3 million boxes is 26 percent above last season but 4 percent below 1980/81. In Arizona, a crop of 7.7 million boxes is expected, 22 percent more than in 1981/82. This season through early December, f.o.b. prices for fresh lemons have averaged moderately above a year earlier. Prices are expected to decline substantially with increasing volumes this winter. Season average prices will likely be considerably lower than last year's high.

Supplies of tree nuts will be slightly larger for the 1982/83 season because of larger carry-in stocks. The pecan, walnut, and almond crops are all below last year. Filbert production, though, is expected to reach record levels. Because of the lower outturn, grower prices for almonds are expected to average slightly to moderately above the 1981 rate of 71 cents a pound (kernel weight). Shipments so far this season through November were up slightly from a year ago, entirely reflecting 12 percent larger domestic use. Exports were down moderately. Prospects for exports could improve, because almond production in Spain and Italy, the leading European producers, is down sharply from last year. On the other hand, the world economy, the price of European almonds and competing nuts, and value of the dollar will still affect export markets.

With a smaller crop, walnut prices will probably remain above a year ago. However, exports were down substantially during the first 3 months of the current marketing year, while domestic shipments, which account for a major share of the market, were near last year's levels. However, a record crop in France could mean reduced walnut shipments to Europe this season. Carryover stocks of pecans at the beginning of the season were sharply larger than a year ago. So, even with a much smaller crop, the total supply of pecans will be adequate for market needs. Grower prices for the 1982 crop may strengthen somewhat. Even with a larger filbert crop, prices may not decline appreciably because world demand for U.S. filberts could be strong.



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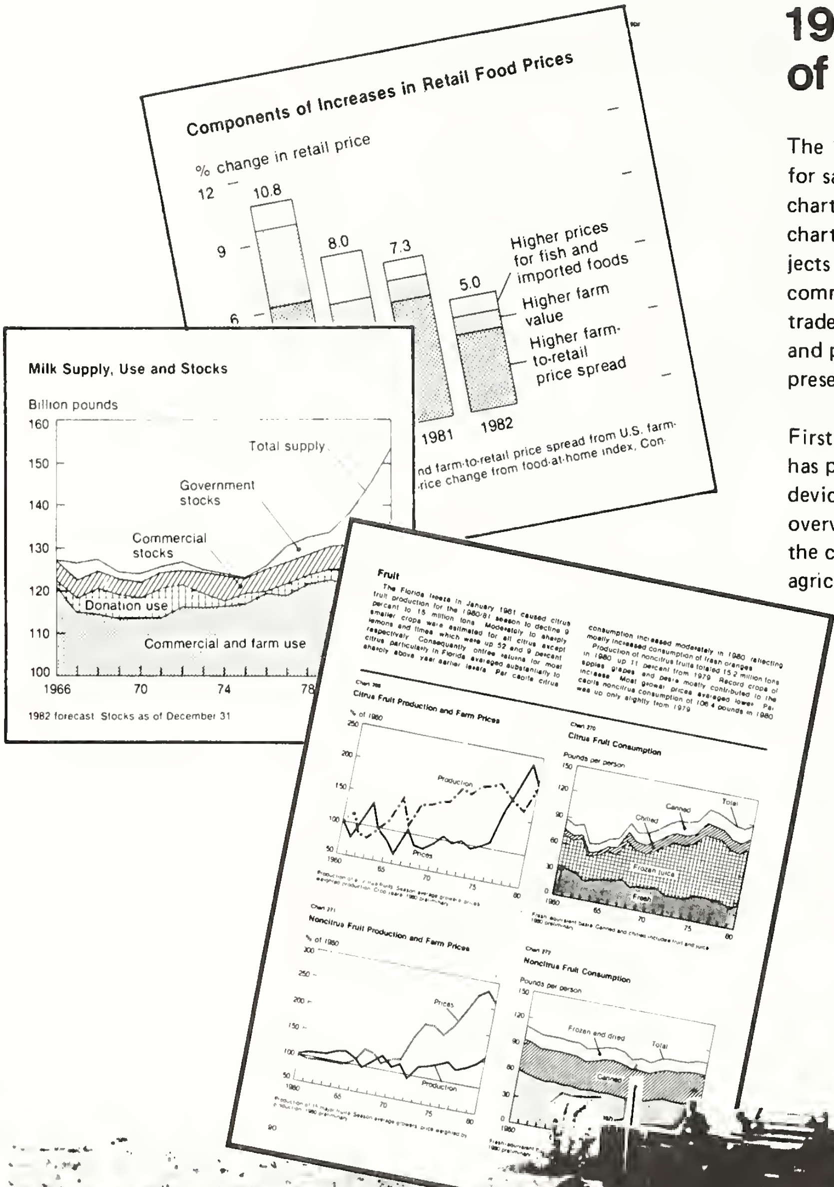

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If you would like to be notified when the 1983 issue of AGRICULTURAL FINANCE OUTLOOK & SITUATION is available, its price, and how to order, cut off the mailing portion at the top of this page, leaving mailing label intact, and send to: EMS Information, Rm. 440 GHI, U.S. Department of Agriculture, Washington, D.C. 20250.